

JPRS-WER-84-087

18 July 1984

West Europe Report

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18 July 1984

WEST EUROPE REPORT

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PSOE CIRCUMSPECTION GEARED TO AVOID RIFTS OVER NATO

Madrid ABC in Spanish 5 Jun 84 p 19

[Article by S.N.]

[Text] The PSOE [Spanish Socialist Workers Party] Federal Committee has not decided what position it will adopt regarding NATO, a decision which continues to be left to the discretion of the government, although it has studied the party's program and the limitations it imposes: "No" to neutrality, and "No" to nuclearization.

It is this latter limitation which rules out integration into the military organization of the Atlantic Alliance for the time being.

Socialist sources consulted by ABC add that there is almost complete unanimity within the party that the debate should proceed without internal trauma, and that it should be restricted to the directing bodies, thus helping the government to be able to take action without being put under too much pressure from the leftists. Thus, they emphasize that the report was approved with only one single opposing vote, and five abstentions.

The same sources point out that the government now appears to be moving toward a Solomonic decision, which would be to retain our current commitments. Standards of international common sense would weigh heavily in this: A headstrong position of leaving NATO would in practice hinder our entry into the Common Market and would estrange us from the European nations, especially those who have unsettled relations with Spain, such as Germany. Also, it is thought that this possibility would bar the way to a rapid professionalization of the armed forces and to significant participation in the technology which is being developed in European weaponry.

This government position, which would be put to a "consultative" referendum, as a vote of confidence on the government more than as a plebiscite on the Atlantic Alliance, would not rule out a future reexamination of the situation with the possibility of full integration. An open door, tempered by a logical sense of what is politically possible, which is especially necessary in international relations. It is not impossible that Alfonso Guerra's prediction may come true, and that there will be a triple question--do we leave, do we stay

as we are, or do we integrate militarily?--in which case the government would recommend the choice of remaining as we are now.

In defending its position from the self-seeking pressure of the "pacifists" the government would take steps to make perfectly clear its wish for the national territory to remain totally denuclearized.

There is fear--more than of the foreign "enemy"--concentrated around the possibility of an internal division within the party, caused by the sectors who lent support to the anti-NATO demonstration. Therefore, everything possible will be done to have the 30th Congress give a free hand to the government in developing its international policy, since it would not be desirable for the congress to be focussed around a sterile debate on "NATO-Yes, or NATO-No."

On this subject, Pablo Castellano is of the opinion that the party leadership "is programming a journey by stages," toward full integration of Spain into NATO. Castellano says that the referendum will be called as soon as possible, "so as to get the pill swallowed before the elections," and that there will also be some kind of reservation in the question, so that the executive power could decide, "invoking the need for realism," for integration into the military structure of the Atlantic Alliance. He believes that the statements of the prime minister cannot be interpreted as a rejection of full integration.

8131

CSO: 3548/273

OPPOSITION FOCUSES ON CONTRADICTIONARY GONZALEZ NATO POLICY

Madrid ABC in Spanish 5 Jun 84 p 19

[Article by S.N.]

[Text] Madrid--The political forces of the opposition are all commenting on the contradictions, confusion and vagueness contained in the statements made by the prime minister and secretary of the PSOE [Spanish Socialist Workers Party] on the subject of NATO, and they are demanding that he clarify his position.

Luis Guillermo Parinat, head of the international affairs section of Popular Alliance, told ABC that Felipe Gonzalez' statements were "contradictory and confused." "Both of the two options he presents are bad," said Parinat. Abandoning the alliance would mean that Spain's defense would be put in a position of weakness, and not joining militarily (remaining as we are now) would mean losing all the benefits which the other countries enjoy." As for the demonstration "for peace" held in Madrid on Sunday, Parinat said that it was unacceptable for the government to have pressure put on it from the street to make it take a position, "and the more so if you consider that foreign elements had a part in organizing the demonstration."

Javier Ruperez, who is in charge of the international section of the PDP [Peoples Democratic Party], a party which is a member of the Popular Coalition, is surprised to hear that the government will not know what to do with the NATO problem until December. "It was an unpleasant surprise," said Ruperez, "to learn that a decision of state has to depend on party politics." Javier Ruperez believes that it is very undesirable "for them to let themselves be influenced by uproar in the streets of a manipulative nature," clearly referring to Sunday's demonstration. "The planning which Prime Minister Gonzalez has done," said Ruperez, "on the NATO problem clearly shows that he does not understand what the alliance is. It is amusing to see that this very topic is now the center of interest in the debates, when for such a long time they said that it was not important."

The communists think it is a serious matter that the government has not taken a position, although half of the legislative session has already gone by, "and when the demonstration clearly shows the government that the citizens do not wish to belong to NATO."

Andreu Claret, PCE spokesman, says, "Up to now a delaying position was understandable, but it is now having negative effects on everyone, and especially on the government, which has become a victim of its own strategy. As a result, the longer the government waits to call the referendum, the more difficulty it will have." Claret thinks it is "unusual" that Felipe Gonzalez' position seems to be: "Let the government be the one that adopts the position, and later let it be the party which ratifies it, that is: The party loses influence." "The government and the PSOE," said Claret, "are operating under very contradictory conditions, since the majority of its followers are against NATO."

The founders of the future reformist party of Rocan and Garrigues think that "the government cannot and should not call a referendum." Antonio Garrigues, president of the PDL, has pointed out the consultative nature of a referendum, and the futility of calling it. According to Garrigues, the problem with a plebiscite on NATO could be that the majority of the Spanish people could not be given enough information about the advantages and disadvantages of belonging to the alliance. The deputy of the Catalan minority, Miguel Roca, believes for his part that the debate on missiles makes no sense in Spain, because NATO is not asking our country to have missiles placed in its territory.

8131

CSO: 3548/273

REVIEW OF KARAMANLIS-PAPANDREOU RELATIONS: UNDERLYING CONFRONTATION

Karamanlis Dilemma Near

Athens POLITIKA THEMATA in Greek 8-14 Jun 84 pp 18-19

[Excerpts] The fourth year of K. Karamanlis' presidency was completed this past May. Four years of a methodical, as well as exemplary, functioning of the new institution, corner-stone of our newly-created republic.

Nevertheless, this anniversary passed in silence. This oversight might have the meaning of an assumption understood by all of us of the success of the institution. And it would certainly be so if there were not a persistent effort by some circles to weaken both the institution, and also the person who incarnates it.

In order to weaken the person, his work must be slandered. And there have been in the past voices, even official ones, which publicly belittled and criticized this work.

Prime Minister A. Papandreou said on 14 October 1982 (and he has repeated it often since then):

"...Our domestic front is solid because the institutions are functioning in Greece and because the president of the republic strictly observes the constitution...."

And at times he has said other things, to the point that the anti-government newspapers were obliged to note the intense display of the prime minister's "pro-Karamanlis" stance.

The objective observer, notwithstanding, will come to different conclusions. He will be obliged to note that Papandreou is engaged in a deceptive game, as he thinks one thing, does another and says another, uses different words.

He knows that he has a debt to Karamanlis. And it is not for his old service, when he invited him to come to work in Greece. Mr Karamanlis would do this to anyone who deserved it.

His debt is to the man who has offered so many generous services to his country, mainly since the fall of the dictatorship.

But Papandreou knows, aside from these, that if he advanced, and if he took power, and if he imposed his measures, he owes this to the personal integrity, political honesty and constitutional devotion of Karamanlis, that only because he is at the top we have not had constitutional complications or other little adventures and reactions. It is not at all certain that if a leader of a different mentality had been in the highest position, PASOK's three years, and its great number of provocations, would have passed with such political magnanimity and forbearance.

Now, of course, on the eve of elections, there is no benefit in investigating the level of the relations between the president of the republic and the prime minister (generally they are not good, nor, in all likelihood, could they be). Karamanlis, practical by temperament and a responsible person, well-disciplined to a strict programming, is naturally losing patience with the inconsistencies, impromptu planning and off-handedness with which critical--even national--issues are being faced.

Determined to "build" the institution which is now being created, he has avoided resorting to his prerogatives even when he found himself--because he did--in complete disagreement with the policy being followed or with the prime minister (let us not talk about his colleagues...). Nevertheless, it is not certain that he will not resort to these until the end of the presidential term (next May).

Now in the fifth year of his presidency, it is certain that events will bring Karamanlis to face historic dilemmas. The political crisis that has been impending for some time will erupt with the result of the Euroelections. The disputes which will be created immediately afterwards and the pressures which will be exercised need steady handling, democratically irreproachable and morally crystal-clear.

To a good captain, the storm is a challenge. Either as a responsible skipper or as a supreme leader, Karamanlis has been able to pass through the stormy times with stability and success.

This is the great advantage of our political conjuncture.

Reality Underlying Public Statements

Athens ANDI in Greek 8 Jun 84 pp 14-15

[Article by Akis Kosonas]

[Excerpts] Is it genuine surprise or artificial naivete? In his official pronouncement, the president of the republic clearly supported the European policy which he himself had chosen and exercised. Suddenly, everyone stood dumbfounded at Karamanlis' action and began to wonder about the "marvelous climate prevailing in the contacts between the president of the government and the president of the republic." How will Andreas (who is kidding whom) react now? Will he tolerate the interference (or intervention)? Perhaps Karamanlis

and Papandreou disagree on their political choices? And is the president of the republic allowed to have choices and, in fact, to make them public?

We wonder about the quality of the perplexities, and about the willing ignorance of the rules of the political game. Everyone was uneasy about the fate of the "mild climate" and feared a show of force by the founder and former leader of New Democracy. A series of concerns and questions were propounded in the form of adolescent inquiries and virginal astonishments. Really, who is still virginal and why?

Let us look, however, at what are the questions arising from the president's move and what are the alternative answers allowed.

1. Why did the president of the republic make an official pronouncement?

It seems that Mr Karamanlis is uneasy about the country's course with PASOK. The pap offered to readers about an "excellent climate in the meetings of the two presidents" functions as a tranquilizer or as a hypnotic--thus everyone seems willing to accept that there is peaceful coexistence between the two leaders. To a degree, the president of the republic favored the cultivation of such a climate, from curiosity in the beginning ("Let me leave him alone and see what he will do"), or because he was well-disciplined, or even when he perceived that "Andreas may be an alternative solution, let him govern and we will see." But Andreas, who indeed may be another solution, quickly exceeded the limits Karamanlis had in mind--he became independent of the expectations and visions of the "god" and went on to implement his own programs, among which, of course, are some that specifically make the founder of ND, shudder, since he is not at all ready to collaborate with his silence in the renewal of the popular mandate for Mr Papandreou. According to the president of the republic, the present political situation required such an official pronouncement, which would not be simply admonitory and advisory, but full of dynamism and definitive about his relations with PASOK. All those who have the opportunity to be around him notice that Mr Karamanlis is possessed by deep uneasiness about the country's political affairs, which compels him to intervene in such a critical period as this one prior to the Euroelections. The essence of the official pronouncement lies not in the fact that the president publicly announced his vote (besides, who can believe that Mr Karamanlis votes for PASOK or KKE or EKKE [Revolutionary Communist Movement of Greece], etc) but in his wish to point out to the Greek people that the period of "excellent relations" with Mr Papandreou has ended or, at best, is being interrupted. The official pronouncement underlined the president of the republic's political distancing from government choices--nothing could be clearer than this.

2. Why was the day when Mr Karamanlis met with Mr Papandreou selected?

There is no political leader who does not maintain that he adores "a mild political climate." Every time Mr Karamanlis meets with Mr Papandreou or Mr Averof he gives lessons in political responsibility, culture and mildness, one after the other. The other two, in their turn, assure him that they are doing whatever they can to maintain a "mild climate." Mr Karamanlis is pleased, he smiles, and the newspapers write about and describe the "marvelous climate

which prevailed".... The same thing must have happened last time also when President Karamanlis met with President Andreas and a short time later made an official pronouncement about "direct communication with the people," leaving Mr Maroudas, for example, speechless, as well as the other worshipers by necessity of the "excellent climate" slogan. Our information says that the climate which prevailed was anything but "excellent," since Mr Karamanlis, who was clearly irritated and uneasy, made the most bitter remonstrations to Papandreou about what is happening in the mass meetings and the way "in which PASOK uses television."

In his turn, Mr papandreou promised that he will deal with these matters, but it appears he did not persuade the president, who a short time after the meeting proceeded to make his official pronouncement--a move which caused uneasiness and irritation in the government party and forced the PASOK Executive Office [EG] to convene extraordinarily.

It is reported that some members of the EG asked for a response to be given to the president of the republic, but in the end the viewpoint in favor of saying nothing about the pronouncement prevailed. "It does not benefit us to confront Mr Karamanlis before the elections...."

So PASOK chose the road of peace and negotiation with the first citizen of Greece--Karamanlis' action forced the governing party to remain silent at the beginning, then to applaud the "presidential wisdom." A result of this stance was the irritation of the KKE, which attacked the official pronouncement publicly and PASOK in other ways. RIZOSPASTIS did not write of course, that PASOK is afraid of Mr Karamanlis, but party cadres are reportedly dissatisfied with Mr Papandreou's party and are speaking out with disappointment about KKE's support thus far for the socialists. Moreover, the placing of Gr. Farakos at the top of the Eurolist can only signify to PASOK that negotiations are becoming tougher.

3. Why does the president of the republic not have idyllic relations with Mr Papandreou?

"K Karamanlis has changed. From 1961 until today he has changed appreciably." Correct. The point lies not in the changes which can happen to our political leaders, but in how far off their opinions are about our political affairs. Mr Karamanlis decided to become president of the republic and it happened. Mr Papandreou wished to become prime minister and he achieved it. Now, how can a person who expresses the views of a specific faction with an even more specific history, automatically reject every "old" theory of his, as soon as he ascends to the supreme position--only professional politicians can understand it. The parties' staffs insist: "Accord on national issues, excellent climate, marvelous atmosphere." No one disagrees that there can be an excellent climate when the two leaders drink some refreshment, talking about the Norwegian fiords. But why the climate can be considered excellent when the president makes the prime minister responsible for the imtemperate partisanizing of television is difficult for us to understand. It is clear that this whole game of unanimity, mutual goodwill, and annihilation of differences can not convince the electoral body indefinitely.

It appears that it is not precisely so, that the climate is not at all excellent; it has absolutely no reason to be, to the extent that two leaders with diametrically opposed political and social perceptions are compelled by events to be in permanent confrontation.

The people's doubts about the story of the "climate" will continue to exist and will grow, as long as the press will have on the front page two unrelated subjects which will refute each other: photographs of the president of the republic with the prime minister at euphoric moments (excellent climate, etc) and photographs from clashes between the backers of the two duelists over issues about wall posters. Something is wrong....

9247

CSO: 3521/266

PINTASILGO CANDIDACY STILL AHEAD IN POLLS

Lisbon O JORNAL in Portuguese 15 Jun 84 p 10

[Text] The theoretical conjectures of Maria de Lurdes Pintasilgo as candidate for the Presidency of the Republic remain unchanged; as has been the case since March, the former prime minister is continuing to chalk up 20 percent of the electorate's voting intentions.

Lurdes Pintasilgo continues to be the most popular in the list of four "candidates" selected by O JORNAL's Marktest barometer which also includes, among others, Mario Soares, present prime minister, Freitas do Amaral, founder and former president of the CDS [Social Democratic Center Party], and Mota Amaral, president of the Regional Government of the Azores.

According to the results of the survey, which was conducted in May and covered 475 individuals in 16 localities with more than 10,000 residents, Pintasilgo would receive 20 percent of the votes cast, Freitas do Amaral 12 percent, Mario Soares 11 percent and Mota Amaral 9 percent.

Also included in the list of "candidates" submitted to the "electorate" as represented by the sample are Firmino Miguel, Salgado Zenha, Garcia dos Santos, Almeida e Costa and Mota Pinto, but none of these names appears to obtain any place of significance in the survey, except Mota Pinto who, in May, was "chosen" by 4 percent of the "voters," and Firmino Miguel who obtained 3 percent; none of the remainder received more than the maximum 2 percent chalked up in prior months. And Almeida e Costa again came up with zero.

Repeating what has occurred every month, the "electorate" found itself obliged to choose, in a second imaginary go-around, between Lurdes Pintasilgo and Mario Soares with the likelihood that the former would obtain an advantage of 10 percentage points. The APU [United People Alliance] electorate would vote en masse for the former prime minister, whereas the PS voters would be divided between the two, and 44 percent of the CDS members would choose to abstain.

Technical Data [in box at upper right of page]

This survey is representative of the country's entire population eligible to vote (18 years and over) and residing in localities with more than 10,000 inhabitants.

A total of 475 individuals were interviewed in 16 localities during the week of 4 to 11 May.

The choice of the individuals to be interviewed was made with the quota method, using sex, age and area as control variables.

The extrapolation of the results relative to the whole country was made by taking the weighted averages for each area.

In figuring the results, we used a procedure involving a sliding average for the last 2 months, that is, the February values are the result of the average of the January-February values; the March values are the average of the values for February-March; etc. With this method it is hoped that we shall correct any possible errors and achieve greater consistency in the results. (A procedure used only in the permanent part.)

For the sampling as a whole, the maximum error is 4.5 percent (giving a probability of 95 percent).


The newspaper handling of the results is the responsibility of O JORNAL.

In a Second Imaginary Go-around

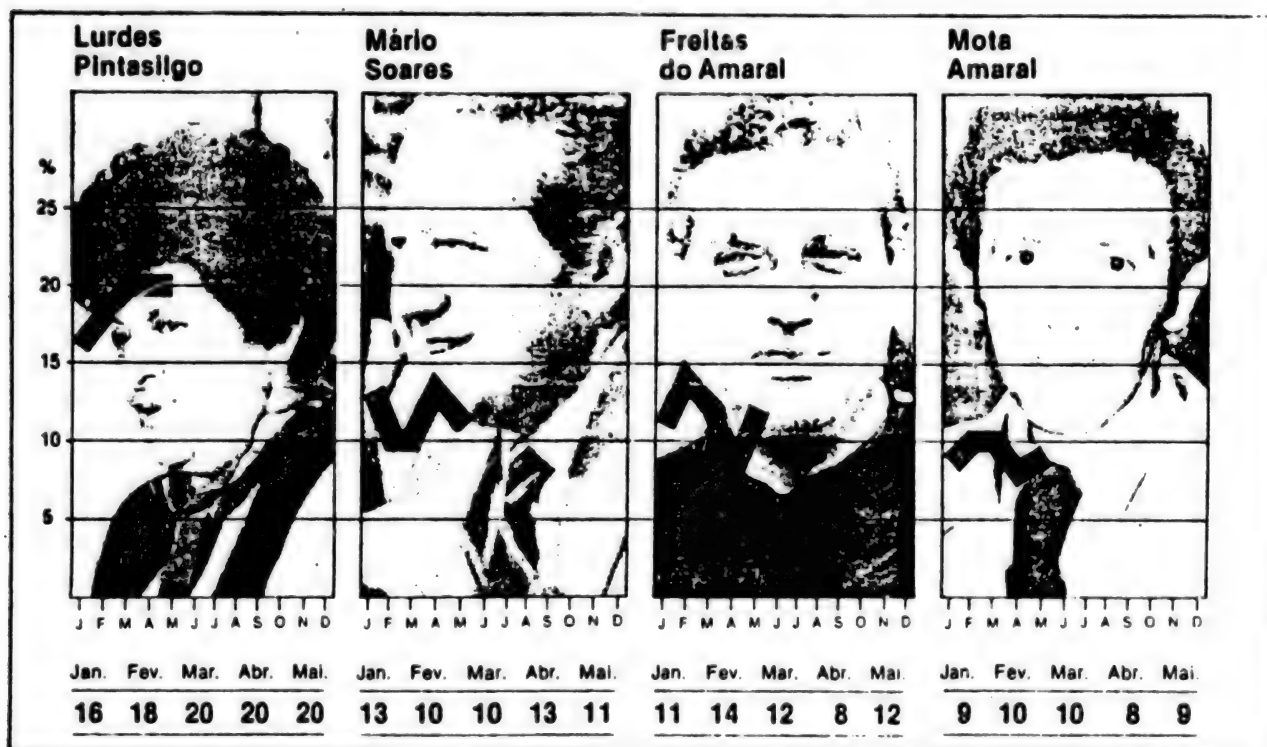
Candidate supported by Eanes would beat Soares by 10 points

Numa 2.^a volta imaginária

**Candidato apoiado por Eanes
bateria Soares por 10 pontos**

Candidato de Eanes	Mário Soares
	
36%	26%

Pintasilgo mantém distância dos outros "candidatos"



"Less Significant" Candidates: Mota Pinto With Possibilities

Candidatos "menores": Mota Pinto a subir

						
	Firmino Miguel	Salgado Zenha	Garcia dos Santos	Mota Pinto	Não votaria em nenhum	Sem opinião
Jan.	2	2	—	—	15	31
Fev.	2	2	1	—	15	26
Mar.	2	2	1	—	14	27
Abr.	2	1	1	2	17	28
Mai.	3	1	1	4	17	21

Soares Would Win "Half" of the PSD Votes and the Eanes Candidate 85 Percent of the APU

	<u>Average</u>	<u>Previous vote by the Assembly of the Republic</u>			
		<u>PS</u>	<u>PSD</u>	<u>APU</u>	<u>CDS</u>
Eanes candidate	36	33	17	85	23
Mario Soares	26	37	50	2	29
Did not vote	16	8	16	8	44
No opinion	22	22	17	5	4

8568

CSO: 3542/63

COMMENTS ON POSSIBLE FIRMINO MIGUEL PRESIDENTIAL CANDIDACY

Lisbon EXPRESSO in Portuguese 16 Jun 84 p 3

[Article by Jose Antonio Saraiva]

[Text] Three Weeks ago the following statement appeared in this column:

"The PSD [Social Democratic Party] still needs a credible candidate--one who stands a chance to win, who can be sure of the votes of the entire social-democratic electorate and can entice voters of the PS [Socialist Party] and the Right. Who can it be? Perhaps a military man."

By coincidence or not, 8 days later a military man declared himself available for that spot: Army Gen Firmino Miguel. As a matter of fact, according to a Lisbon weekly newspaper, Firmino Miguel allegedly stated that he would agree to run for the presidency if the PSD invited him to do so. Firmino was said to have gone even further. When doubt was expressed as to whether he would run against Mario Soares, he is said to have answered: "Let them try and they will soon see."

I must say that Firmino Miguel was the military man I had in mind when I wrote about the virtual inevitability that the PSD would choose a military candidate.

The reason for this is easy to explain.

A military candidacy is only justified if the individual involved is an officer with a broad background and an abundance of prestige among the troops.

In truth, how would we explain the candidacy of an officer who is no longer of any significance?

What sense would there be in the candidacy of a "second-rate" military man? Of what value, on the party level, would be the choice of a second or third-rate politician as candidate to the Presidency of the Republic instead of a first-rate figure?

Under those conditions, therefore, there were only two eligible officers: Lemos Ferreira and Firmino Miguel.

Moreover, those were the two names mentioned when the occasion arose to fill the position of head of the Armed Forces General Staff.

Meanwhile, Firmino had an important advantage over Lemos Ferreira: the fact that he had normally been considered a more moderate individual, thus being able to reach a broader cross-section of voters.

In other words, Lemos Ferreira would have difficulty obtaining more votes than those obtained by Gen Soares Carneiro in 1980. On the other hand, Firmino Miguel, in addition to winning the majority of the PSD electorate, is capable of winning many of the CDS [Social Democratic Center Party] votes and even substantial support among the socialist voters.

A uniform is always a uniform--and certain sectors of the electorate, who value stability and security and ordinarily vote in line with the PS inasmuch as the Socialist Party presents itself as the "government party," could be easily attracted by the idea of permanency of a uniformed figure in the leadership of the state.

With regard to the CDS electorate, that group would find it difficult not to vote in large numbers for this officer. In fact, in case he runs, Firmino Miguel would appear as the most rightist candidate with possibilities of winning. And the useful voting mechanism would function naturally, as it functioned on other occasions.

The following question remains: Will the PSD be inclined to support Firmino Miguel?

The answer is easy: The voters and the military yes--the management sector perhaps not.

Moreover, in case that candidacy should gain stature, the Social-Democratic president would be placed in a most difficult position.

For this reason, Mota Pinto, who has received more support from Mario Soares than any other deputy prime minister has ever received from a prime minister, basically wants Soares to be president.

It now seems clear that there is an explicit combination or at least a tacit understanding between these two politicians: Mario Soares will aid Mota Pinto and support him as much as possible--and Mota Pinto, in exchange, will do everything he can to help Soares become president of the republic.

In this connection, the PSD president will take it upon himself to reach an agreement whereby his party will support Mario Soares in the presidential elections; and in case this is not possible, the deputy prime minister will try to see that the PSD candidate is not a candidate who will win but one who will not be eliminated the first time around, so that, the second time around, the social-democratic votes will be concentrated on the secretary-general of the PS.

Thus, in Mota Pinto's opinion, Firmino Miguel is a bad candidate. For, from the beginning, he has what it takes to go all the way and even to win the presidential election.

8568

CSO: 3542/63

BRIEFS

ASSOCIATION FOR ARAB COOPERATION--A director of the Portuguese Association for the Development of Cooperation with Arab countries, which includes our country's businessmen, researchers, intellectuals and diplomats, emphasized in statements made to the Portuguese News Agency that this type of cooperation should not be limited to economic sectors. Manuel Pechirra maintained that cooperation with the Arab world should be coordinated by a single organization with the support of various official and private groups interested in that important area. According to him, a large number of official organizations and Arab diplomatic representatives in Lisbon, as well as business people from the Arab area, expressed great interest in the establishment of this association whose objective is the study, disclosure and "pursuance of all activity aimed at the development of cooperation of a cultural, economic, social and technical nature." [Text] [Lisbon DIARIO DE NOTICIAS in Portuguese 15 Jun 84 p 5] 8568

POSSIBLE PLO DIPLOMATIC STATUS--The PLO is still "waiting for the Portuguese government to grant it diplomatic status" in order to install its representative in Lisbon, according to Jaime Gama, a Palestine news source, speaking to ANOP [Portuguese News Agency]. He said that the executive branch "is studying the matter" and has indicated its willingness to meet with Yasir Arafat, the PLO leader, when he visits Tunisia this year. [Text] [Lisbon DIARIO DE NOTICIAS in Portuguese 19 Jun 84 p 4] 8568

CSO: 3542/63

GOVERNMENT WANTS DOMESTIC INDUSTRY TO BUILD FORCES' MISSILES

Stockholm SVENSKA DAGBLADET in Swedish 28 May 84 p 8

[Article by Erik Liden]

[Text] Tougher American restrictions on the export of technology are forcing the Swedish military to invest more and more in an advanced missile industry of its own. This will require extensive cooperation, especially between Bofors and Saab.

Throughout the 1970's, defense reports and defense plans stressed that our missile industry would stand or fall, depending on this cooperation. This was confirmed in the military resolution of 1982 and, most recently, by Defense Minister Anders Thunborg in his proposal for additional military spending, which was approved by parliament on 25 May.

What has happened all these years?

The defense resolution of 1977 initiated cooperation between Bofors and Saab for the development and production of military missiles. In 1978 this led to the formation of Saab-Bofors-Missile-Corporation AB (SBMC) with headquarters at Stureplan in Stockholm.

Government Money

During the past 8 years, SBMC has not coordinated a single missile project. Instead, its primary task has been to divide development and production tasks, as well as government money, between Bofors and Saab.

The goal of integrating missile systems between these companies has failed. Some critics say that SBMC is a "mailbox company" at Stureplan. Similar cooperation between Bofors and Hagglunds in Ornskoldsvik has been more successful, with the formation of the company HB Utveckling.

Now both the defense minister and commander in chief Lennart Ljung want to change this situation because of difficulties in obtaining technology from the United States and because of Sweden's neutral position in a possible future war. In this situation, we simply cannot be dependent on homing devices, guidance systems, and electronics, the production and export of which are controlled by the major powers.

As an example, the air force needs a modern air-to-air missile for the JA 37 Viggen. For many years it has considered the Sidewinder from the United States, which the Americans are constantly modifying. Back in 1977 a purchase of the 9L version was in the works, but this later became impossible because of Datasaab's dealings with the Soviet Union.

Export Permit

In 1981 the Falldin government obtained a new export permit during a visit by Secretary of Defense Caspar Weinberger. Even then a more modern 9L was being manufactured on license in West Germany, but we were unable to purchase it. Now, almost 3 years later, our tight military budget has delayed purchase of the Sidewinder once again. There is a new 9M version being manufactured in the United States, but we cannot purchase it. The Swedish 9L is based on technology that is more than 10 years old.

Nevertheless, during the 1984/1985 fiscal year the air force will purchase a small number of 9L missiles to upgrade the weapons resources of the Viggen. The alternative is to modify the Sidewinder 9J, which is already available in large numbers for the J35 Draken.

Sixties' Technology

It is based on the technology of the sixties, but it could be used as a stopgap until a decision is made to resume development of the Swedish IR air-to-air missile 72, which Saab was forced to abandon in 1978.

It is believed that the Saab missile could provide experience so that, in the long run, Sweden could maintain its expertise in the area of heavy missiles. The first step in this direction was taken with the production of the air-to-surface missile 15, which performs better than the much discussed Swedish Exocet. In 1979 the Liberal Party government opted for a Swedish alternative, missile 15, to the American Harpoon. Series production will begin this summer. Missile 15 has a range of 100 km and will be installed on the navy's Spica ships.

The Defense Materiel Command (FMV) conducted a missile study for the 1987 defense resolution. The study was led by chief engineer Jan Høglund. He came to FMV almost 2 years ago directly from Saab's missile division.

A preliminary report has been presented to the commander in chief. It advocates an all-Swedish missile system. It would require an additional 4 billion kronor to carry out an exclusively Swedish missile program, the technical feasibility of which has not yet been analyzed. The commander in chief has briefed the defense minister and decided that large parts of the study will be redone and submitted early this fall.

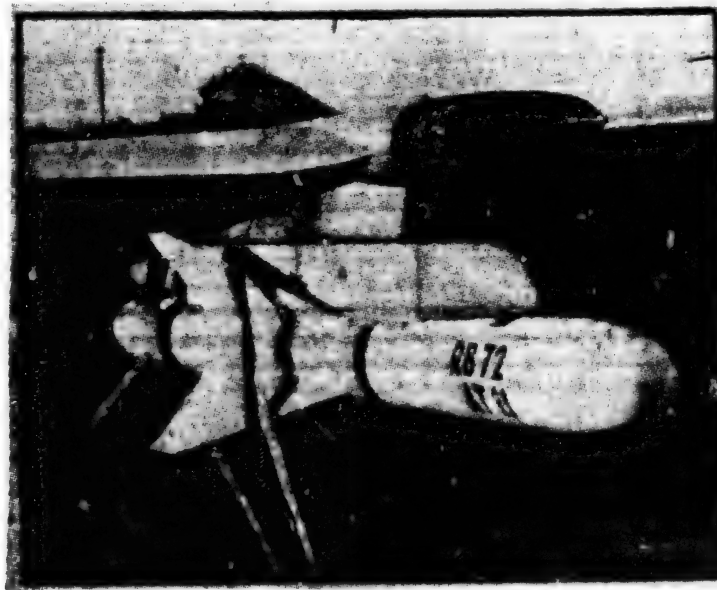
Missile Program

The commander in chief supports a Swedish missile program, but the government has called for a redistribution of funds in the present military budget. No additional billions will be appropriated. The industry must also participate with its own capital.

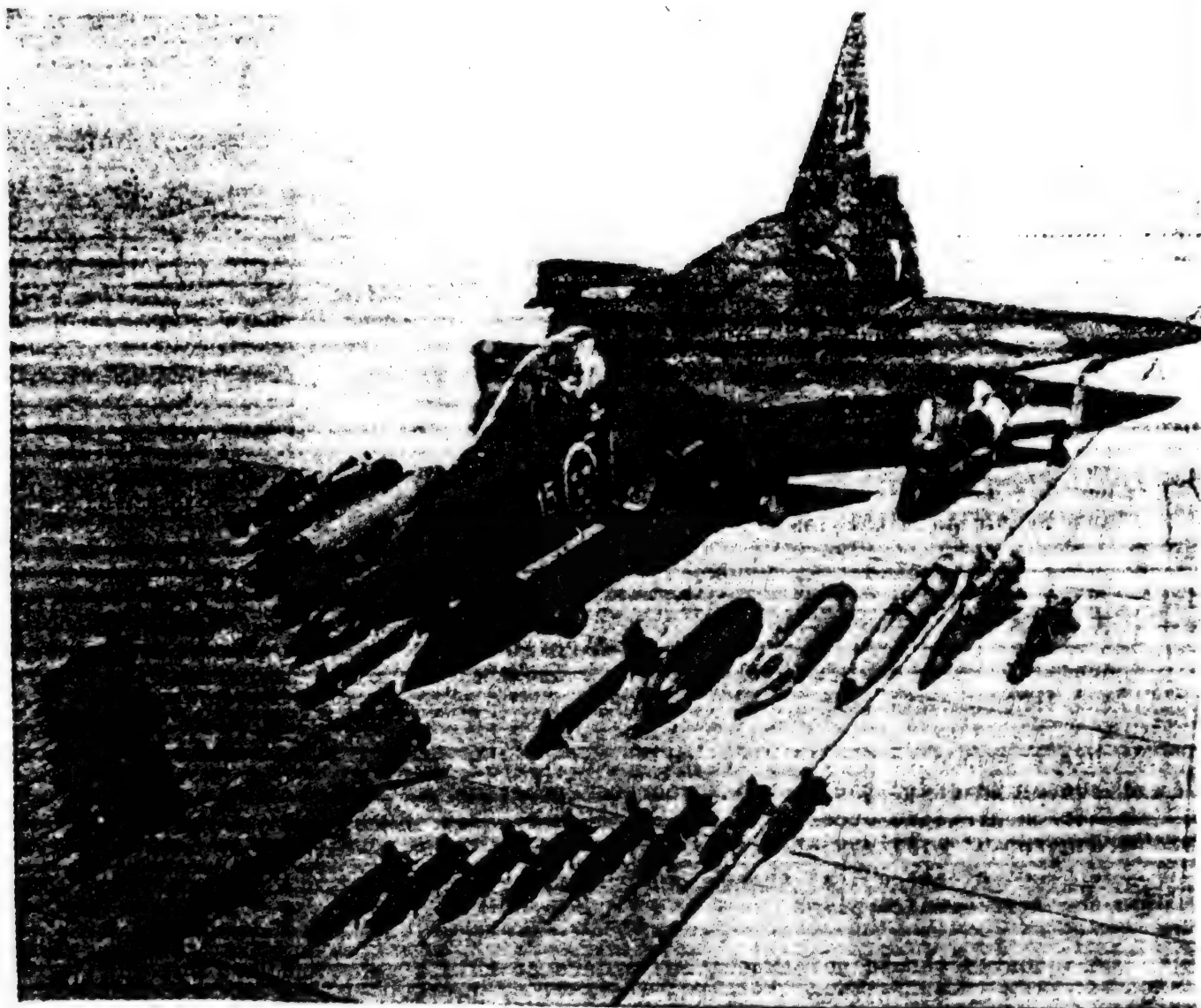
In this way, in addition to an aircraft version of missile 15 for the JAS-Gripen, a Swedish Sidewinder with an IR homing device could be developed and manufactured during the early 1990's. A shore-based missile 15 also is being planned.

This will require that SBMC intensify its efforts to coordinate the production of Swedish missiles and become less involved in exports, which are now its highest priority.

The Defense Ministry stressed that future missile purchases must include Swedish homing devices, guidance systems, and electronics, at least.



The abandoned IR missile project for the Viggen fighter, Saab's missile 72, could reduce our dependence on the United States if development is resumed. It could replace the Sidewinder. This goal is supported by the government, if the companies contribute their own risk capital.



The Viggen fighter-bomber (photo) has many Swedish weapons, while the Viggen fighter has fewer. A missile program would reduce our dependence on the United States.

9336
CSO: 3650/221

SOCIALIST DEFENSE PANEL MP: POSSIBLE DOMESTIC SUCCESSOR TO JAS

Stockholm SVENSKA DAGBLADET in Swedish 26 May 84 p 6

[Article by Erik Liden]

[Text] "We cannot prohibit the Swedish aircraft industry from developing and producing new military aircraft after the JAS-Gripen, but there are no plans for any procurement in direct succession to the JAS."

Vice chairman Olle Goransson (Social Democrat) of the defense committee left this possible opening for the future when defense appropriations for the 1984/1985 fiscal year were discussed in parliament on Friday. The debate was characterized by a high level of unity among the four parties represented on the defense committee.

In his response to Oswald Soderqvist (Left Party Communists, VPK), Olle Goransson defended the Social Democrats' positive position toward the JAS. Unlike on previous occasions, he left open the possibility of the continued production of military planes in Sweden. In the JAS decision last year the government stressed that the aircraft industry should assume that the JAS would be the last Swedish plane.

"The industry should not expect any orders at this time. The development and production of new planes after the JAS will be unlikely during the next 15 to 20 years," Goransson said.

No Reply

No one in the chamber replied to this surprising news from the Social Democratic spokesman on defense issues--not even Defense Minister Anders Thunborg, who followed the debate from the cabinet ministers' bench.

The four-party agreement from early March on extra defense spending of just over 2 billion kronor by 1987 was praised by the government and by the three nonsocialist parties.

"Agreement on these extra funds will send an important signal to the rest of the world," they all agreed.

Chairman of the defense committee Per Petersson (Conservative Party) said an open debate was important, but that it should remain objective. All the speakers were concerned by Sweden's inability to capture the intruding submarines.

Following a motion from Kerstin Ekman (Liberal Party), a unanimous defense committee proposed that the KA-4 coastal artillery base be maintained at the battalion level. Parliament concurred with this decision.

As a result of the debate, which lasted just under 2 hours, the military was given just under 20 billion kronor for the next fiscal year. Only VPK expressed reservations.

The new organization for psychological defense, to be established on 1 July 1985, also was approved.

9336

CSO: 3650/221

FURTHER DISBANDING OF ARMY FORMATIONS POSTPONED TO 1985

Stockholm DAGENS NYHETER in Swedish 8 Jun 84 p. 8

[Article by Sven Svensson]

[Text] A decision to disband additional military units will be postponed until after the 1985 elections.

The Defense Ministry will ask commander in chief Lennart Ljung to recommend the discontinuation of additional regiments, but only in 1986.

This was the impression the special parliamentary group within the defense committee of parliament received Thursday when its members were briefed by undersecretary Per Borg on the plans of the Defense Ministry.

Because of a lower birth rate, there will be about 2,000 fewer inductees in the coming years. This means that several more regiments will have to be disbanded, in addition to those parliament already has decided to disband.

According to plans, the commander in chief will be commissioned by the Defense Ministry to recommend additional cuts in 1986. This means that the government need not deal with this sensitive during the 1985 election campaign. A regiment has about the same effect on employment as a large business.

The members of parliament also had access to the draft of a Defense Ministry directive on antisub measures, which will be studied by the commander in chief. As previously reported by DAGENS NYHETER, these efforts will concentrate on important military regions.

On Thursday the military induction committee also held its last actual meeting, although its report will not be approved until 12 July.

The military induction committee will recommend to the current defense study commission that the army implement a revolving training system, on a trial basis. This would mean that three classes would be trained in 2 years, instead of the present system of one class per year.

The military induction committee has not yet decided where this new system would be tested.

The purpose of the revolving training system is to make it less expensive and to strengthen our so-called incident preparedness.

The revolving training system would make well trained soldiers available throughout the year.

If the experimental system is successful, the revolving training schedule would mean that about 10 regiments could be disbanded over a period of time.

9336

CSO: 3650/221

PROPOSAL MADE TO PUT ECONOMIC DEFENSE IN CHARGE OF CIVIL DEFENSE

Stockholm DAGENS NYHETER in Swedish 5 Jun 84 p 6

[Article by Ase Skarsgard]

[Text] The National Board of Economic Defense (OEF) may become responsible for coordinating all aspects of civil defense and be reorganized into the Board of Total Civil Defense.

The National Institute of Defense Organization and Management was commissioned by the government to study the management of the civilian sectors of the overall defense system. Its report will be presented on 1 October this year. The idea behind making the OEF the civilian "commander in chief" is to improve coordination within the overall civil defense.

Awaiting Proposal

Gunnar Nordbeck, director of OEF, does not wish to comment on the study until a proposal has been made. He believes, however, that it would be logical to make OEF responsible for coordinating the entire civilian side of our defense.

In this way, there would be one agency responsible for the overall civil defense system and coordination among the various units would be improved.

"We need an agency with overall responsibility for coordination. Today there are many tasks outside the scope of OEF," said Klaus Ludvik, director of the National Institute of Defense Organization and Management and leader of its working group.

One example is healthcare, for which the National Social Welfare Board is responsible. Preparedness in the field of healthcare is extremely poor today. Although healthcare is totally dependent on disposable articles, there are no stockpiles of such articles today.

But it is not just organizations that deal directly with supplies that would be coordinated by a restructures OEF. All aspects of the overall civil defense would be among the expanded responsibilities of OEF--everything from the police court system to the planned Emergency Rescue Agency (a combination of the Civil Defense Board, the National Fire Service Board, and the National Board for Municipal War Emergency Planning).

"In all probability, responsibility for energy supplies would be removed from OEF. Since the State Energy Agency has been established, it would be reasonable for this agency to deal with emergency supplies," said Klaus Ludvik.

The defense resolution of 1982 established the principle that whatever organization deals with a certain activity in times of peace would do the same during a war and, thus, be responsible for emergency measures. The idea of making the State Energy Agency responsible for energy supplies is a consequence of this principle.

The material now being gathered by the National Institute of Defense Organization and Management may be used, in part, in the defense resolution of 1987. Certain sections could be removed and studied separately, such as the responsibility of the OEF for oil stockpiles.

9336

CSO: 3650/221

HISTORY, ANALYSIS OF CREUSOT-LOIRE DIFFICULTIES

Paris LE NOUVEL ECONOMISTE in French 25 Jun 84 pp 32-37

[Article by Jean Gloaguen and Richard de Vendeuil: "Creusot-Loire: A 25-Year Long Agony"]

[Text] During the ultimate confrontation between the State and capital, LE NOUVEL ECONOMISTE is analyzing the bankruptcy of 25 years of management.

To save Creusot-Loire. The Paris commercial court has done all it could to spare bankruptcy to the leading French manufacturer of heavy machinery and its 30,000 employees. Involved in spite of itself, it tried to take the heat out of a debate in which blunders, ulterior motives and misunderstandings sometimes took precedence over the major questions of principle put forward by the authorities concerning, on the one hand, businesses in difficulty and, on the other hand, the rights of private shareholders.

Silence

Desirous not to compromise the "limited but real chances for the implementation of a solution," Mr Jacques Bon, presiding judge, ordered that both parties should remain silent as of last weekend. To prevent things from dragging on, although the stay of proceedings could be extended until 13 July, he decided that "the case would be ultimately examined in the court chambers on Thursday 21 June."

"The last obstacle is now a psychological one, as no one wishes to lose face," Mr Andre Billardon, deputy of Le Creusot, explained Tuesday.

Although no compromise was reached, the parties involved were at least agreed on one point: the largest bankruptcy in present-day French history would be a tragedy. "It would be a disaster for France. We shall not resign ourselves to it," Mr Laurent Fabius, minister of industry and research, stated on 14 June at the National Assembly. Mr Didier Pineau-Valencienne, chief executive officer of Creusot-Loire and its parent company Schneider, was making similar statements, although he also said that he would resign if a court settlement was not granted. Actually, he must have felt quite isolated: rumors were starting to circulate in business circles, that with

the State and the financial community against him he would find himself in an untenable position at Schneider should Creusot-Loire founder.

Legal ups and downs on a background of financial tragedy. Because of its accumulated losses (FF 1.8 billion in 1983) and expected losses, Creusot-Loire needs FF 8 billion by 1986. Last year, after stormy negotiations, the company was assured of getting six. Therefore, FF 2 billion remained to be found. On the one hand, the State agrees to pay only if, as a counterpart, it gets an interest in Schneider, which has nice assets. To support its claim, the State points out that it has already spent a lot of money to rid the group of lame ducks in the machine-tools, steelmaking and shipbuilding sectors. On the other hand, Mr Pineau-Valencienne considers that Schneider has already given too much (FF 720 million) to its failing subsidiary. He is willing to agree to some public participation in the latter, as long as it does not result in a de facto nationalization. Early in June, this preliminary condition caused the failure of the negotiations with the Suez group.

Actually, in the past few weeks, the State has shifted the dispute toward the shareholders of Schneider. Whom does he represent, people in the government will ask of Mr Pineau-Valencienne. The Belgian family Empain? Himself? Only one thing is certain: the majority group of shareholders owns a total of 42 percent of Schneider. But it exerts its control through an intricate web of 11 holding companies. For example: SPEP [expansion unknown], one of the summits of the structure which includes, among others, insurance companies (Gesfi, Preservatrice), the Empain Financial Company, Paribas and foreign shareholders related to the Empain family. This company owns 44 percent of SOPINFI [expansion unknown], which itself holds 39 percent of Jeumont-Industries, the latter owning 20 percent of Schneider. In other words, with a consolidated interest of 3.5 percent, SPEP is holding 20 percent of Schneider. If a third party is allowed to enter one of these intermediate holdings, the whole structure may get out of balance.

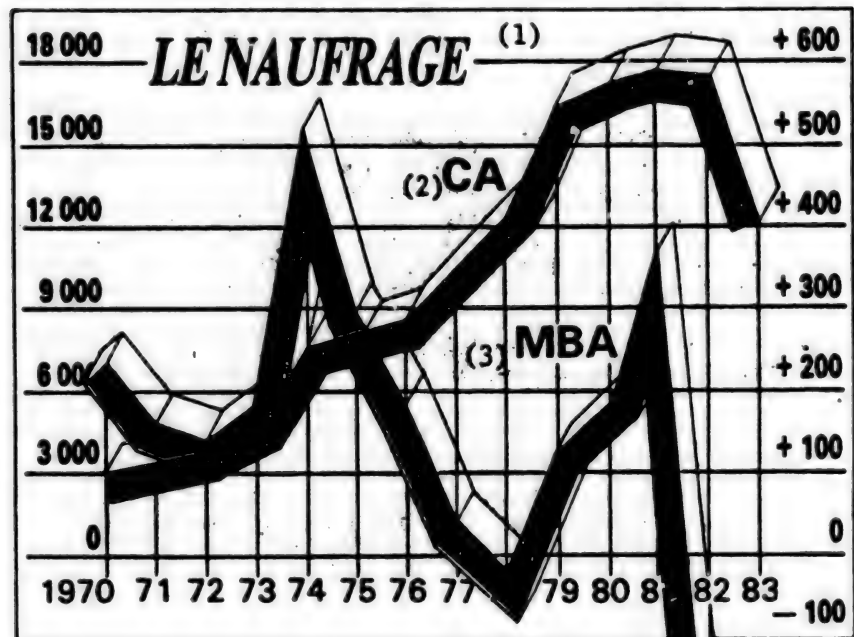
Anyhow, one year of uncertainty and delays have only increased the traumas of Creusot-Loire.

As far as labor is concerned, 3,000 have already been laid off. The early retirement of cadres has deprived certain factory departments of their heads.

Saying it would recenter its operations on a hard core restricted to railroad and energy equipment, the group dumped so much ballast that it nearly broke up.

This, of course, has affected business. Worried about what would happen next, sales people just left. Contracts were kept pending or purely and simply lost, as in Saudi Arabia or in India.

Another cause of disruption: lack of management. Chief executive officer of Creusot-Loire since the beginning of 1983, Mr Pineau-Valencienne spent most of his time studying the firm's position and negotiating solutions to improve it.



Variations of the Consolidated Sales,
Exclusive of Taxes, and the Cash Flow
of the Creusot-Loire Group (in Million
Francs)

Key: 1. Foundering
2. Sales
3. Cash flow

Drastic changes in organization charts adding themselves to demobilization accelerated the deterioration of accounts. The firm did not need that: it was already at the point of death, sapped by an old illness.

The group has been tottering for at least a quarter of a century. A subsidiary of Schneider, the empire created in 1836 and made famous by its arms manufactures, the Creusot Forges and Workshops Company (SFAC) started to reel dangerously in 1960, after the death of its chief executive officer, Charles Schneider, following a fall in his yacht at Saint-Tropez. On the Stock Exchange, the price of SFAC stock dropped by half from 1962 to 1967. The Loire Workshops and Forges Company (CAFL), issued from the regrouping of older metallurgical companies, also suffered a lot from the crisis of the iron and steel industry. In 1970, the union between SFAC and CAFL led to the creation of Creusot-Loire (24 plants, 39,000 people and sales of FF 3 billion), but the giant too was to suffer one crisis after the other: in 13 years, it had only one prosperous year--1974.

Such a decline is the result of a management failure. In retrospect, one is astounded by the lack of judgment of the managers and the dreams they entertained. Already in 1972, they stated with remarkable thoughtlessness: "The merger is completed. It took place faster and under better conditions than had been expected." After that, although figures belied their statements, they kept forecasting a brighter future.

The cascade of mergers that yielded Creusot-Loire would have been justified only if it had recentered on modern factories. Instead of that, they used a series of makeshift plans to prevent site closings.

Worse still: except in nuclear engineering, they had no guiding principle, none of the sharp insights that are the key to success. Was the golden age of iron over? Was size a guarantee of invulnerability? What was going on abroad? What would pay off in the long run: mechanical engineering or steel-making? Were the Creusot-Loire special steels about to become heavy stuff? To all these questions, a single dogmatic answer: The integration of steel-making and mechanical engineering is where the main strength of the group lies; the group must strive to retain its configuration."

Strongholds

And what should we say of the internal organization which, "although more rigid than in the army," according to a young cadre, did not prevent strongholds from emerging at all levels of the hierarchy: "I could never gain access to certain documents in other subsidiaries or divisions," a former member of the financial management acknowledged.

As a result of this compartmentalization, costs and accounting became impenetrable. Costs? With its Sears-Roebuck type of catalog ranging from locomotive bogies to submarine diving spheres, large castings and tank armor plating, Creusot-Loire needed badly to know what its costs were; the manufacturing costs of some items were up to twice as high as their selling price. Accounting? A large part of the losses reported for 1983 were due to items that elementary prudence should have required to enter before that. "The

auditing firms which we asked to clarify the situation discovered an unbelievable number of skeletons in closets," Mr Pineau-Valencienne likes to say.

The lack of strict analytical accounting and the existence of feudal strongholds could only generate irresponsibility. One example: Creusot-Loire Enterprises which was just taken over by Technip. To boost his image or to get adequate workloads at any cost, and confident that he could pass on the bill to other companies in the group, the former chief executive officer, Mr Francois Mayer, a graduate of the Paris Polytechnic and School of Mines, signed contracts that proved disastrous with Iraq, East Germany and Somalia...

Reflecting the inconsistent organization of the group, examples of extravagant management of course varied according to the sectors. Undeniably, efforts to straighten out the mechanical engineering sector were made by Mr Philippe Boulin, a graduate of the Paris Polytechnic and School of Mines, and an indefatigable and likeable advocate of centralization, who was appointed general manager of these operations after the merger. At the time, it is true, mechanical engineering was the most ailing sector. In the metallurgical sector, the other general director, Mr Michel Collas, also a graduate of the Paris Polytechnic and School of Mines, piled up blunders. The founder of the French Management Association was blinded by the good results obtained in 1974 and acquired Marrel (thick sheet metal) and the U.S. company Phoenix Steel; he federated scrap metal businesses into Sicaworms; he attempted to become a major manufacturer of scientific and medical instruments with Instruments SA.

A Whim

Every one of these ventures was a disaster, and they left a total unpaid bill of nearly FF 2 billion. Some of the facilities of Marrel, which merged with its parent company, were closed down. Sicaworms was sold again: what whim made the group get into such a specialized business as scrap recovery? As for Phoenix Steel, it filed for bankruptcy last summer. The venture cost the trifle of FF 1 billion. At first, in support of the investment made in this company which had a chronic deficit, Mr Collas did not hesitate to maintain that, if Creusot-Loire lacked means, it had the management expertise to succeed where the Americans had failed. Once a cowboy...

Yes, some will say, but what about the nuclear venture which now represents one third of Creusot-Loire operations? Undeniably, as with locomotives and guns in the last century, the group gambled with foresight and it paid off. It owes this to two men: Mr Albert Buchalet, a former general in the paratrooper, with a brilliant record, and the father of the French atomic bomb; and then, to Mr Boulin. SFAC got involved in nuclear engineering as early as 1958, when it started having privileged relations with Westinghouse--11 years before Georges Pompidou, the newly elected president of the French Republic, gave up the French graphite-gas reactor system and decided to use the U.S. pressurized-water system. After a cutthroat struggle with the CGE group [General Electricity Company] headed by Mr Ambroise Roux, Creusot-Loire obtained a monopoly on nuclear vessels for FRAMATOME [Franco-American Atomic Construction Company], its subsidiary jointly owned with Westinghouse. That was a windfall, considering the large program that EDF [French Electricity Company] started after the Kippur War: FRAMATOME, which is now independent

from Westinghouse, received 52 orders from EDF; it achieved sales of FF 4.4 billion and a profit of FF 201 million in 1983. The company was also awarded a few foreign contracts, in particular in Belgium, South Africa and Korea. However, its future promises to be more uncertain: orders have slowed down, both in France and abroad.

Creusot-Loire did not resist the temptation to take advantage of the success of its booming subsidiary. To improve its cash flow, it demanded cash advances from FRAMATOME, then converted the company into a partnership. A good way to merge directly the profits of the latter into the ocean of losses of the former.

Following this reasoning to its logical conclusion, last year the Creusot-Loire management considered purely and simply absorbing FRAMATOME. A few weeks later, after a spectacular reversal, they agreed to reduce their equity in FRAMATOME to 50 percent and sold 20 percent to the Atomic Energy Commission, which already owned 30 percent. Since then, they have unsuccessfully offered to sell their remaining interest in the company. Selling this asset would eventually accelerate the decline of Creusot-Loire.

Trouble

In the FRAMATOME case, the two factors at the origin of Creusot-Loire's erring ways in the past 25 years were State influence and shareholder casualness. With its shady prestige as a former gun manufacturer, and involved as it is in the "sensitive" nuclear field, Creusot-Loire was never considered as a traditional capitalistic corporation by political circles, which were always ready to call it "strategic." In 1963, when General de Gaulle learned that Schneider, which in his mind was associated with Le Creusot, was in danger of getting under the control of a 26-year old Belgian baron with the reputation of a playboy, Mr Edouard-Jean Empain, he reacted quickly: he imposed the appointment of Mr Roger Gaspard, a former EDF chief executive officer, to head Schneider and SFAC. The State then imposed a merger between SFAC and CAFL as a preliminary condition to the granting of subsidies under the Steel Plan. In 1975, the State again decided in favor of FRAMATOME for the power plants. Then, two years later, when Baron Empain was kidnapped, the State attempted to find potential buyers for the boiler manufacturer: the French Oil Company was approached.

However, the government was less eager to help when Mr Boulin wanted to get out of the steel industry, as the latter was suffering dramatic losses. When the Creusot-Loire general manager pointed out that his company was treated differently from the two steel giants--an argument that was also Mr Pineau-Valencienne's--his former fellow student at the Paris Polytechnic, Mr Andre Giraud, minister of industry, told him he should have been a better manager. Finally, it was only early in 1981 that Creusot-Loire managed to negotiate a first agreement with Usinor.

Diplomacy

Creusot-Loire is also dependent on politics in foreign countries (which represented 50 percent of its markets in 1983). Its sales of railroad and

energy equipment and turnkey steelplants are largely interwoven with French diplomacy. This role of carrier or supporter of the country's main foreign policy lines is not without danger. Take for instance the Soviet Union. Already in 1985, Creusot-Loire resumed relations with this country in which Schneider used to have considerable holdings before the October Revolution. Contracts followed in succession: "To us, the Soviet Union is almost a domestic market," Mr Boulin went so far as to say once. After the invasion of Afghanistan and the events in Poland, things started to go wrong. First, the Carter Administration objected to Creusot-Loire's sale of equipment for a steelplant. At the request of the Elysee Palace, the French firm went ahead, but Washington punished it by prohibiting the sale of its special steels in the United States for several months. Another incident occurred later on, when the Reagan Administration placed an embargo on all products manufactured under U.S. licenses and intended for the Europe-Siberia gas pipeline. Creusot-Loire compressors were involved. This nearly caused a diplomatic incident, but they were shipped.

A strong French tradition, the constant sollicitude of the authorities and international political interferences do not always represent a handicap: Messrs Marcel Dassault and Ambroise Roux have fully demonstrated that. On the other hand, they were not handicapped by the hesitations of large shareholders. Unaware that a storm was brewing, and more concerned about formal balances than sound management, in a word behaving like ironmasters, Schneider and Marine Firminy, the respective parent companies of SFAC and CAFL, signed a joint management agreement when Creusot-Loire was created: equal participations in the company; alternating chairmen of the board; general management divided between Mr Collas (CAFL) and Boulin (SFAC). It would have taken a strong chairman of the board to prevent such a construction from leading to a division of the firm. Initially, this was prevented by the principle of alternating chairmen of the board: Mr Henri Malcor, a graduate of the Paris Polytechnic and the School of Mines and chief executive officer of Marine Firminy, did not leave much to be remembered for. Mr Jean Forgeot, who succeeded him and retained his position until 1982, was neither willing nor able to be an iron-handed decision-maker. This likeable finance inspector, wearing glasses and a moustache, who had come to Schneider after being chief of staff to Vincent Auriol when the latter was president of the Republic, was too much inclined to compromise. Finally, under the pressure of events, he relegated Mr Collas to the sidelines in the fall of 1978 and gave full powers to Mr Boulin. Excessively optimistic, desirous to prevent layoffs and with little support from the authorities, the new strong man could not seal the gaps. After succeeding Mr Forgeot in June 1982 as chief executive officer of Creusot-Loire, he was ousted six months later by Mr Pineau-Valencienne. Only electroshock therapy could still prevent the patient from dying. Only a new and resolute man could administer it. Finally, the shareholders could play their part.

In the meanwhile, a lot had happened. In 1973, a fantastic struggle opposed Usinor, Schneider and the De Wendel family for the conquest of Marine-Firminy. It provided an opportunity to find out that the equity of that holding was not locked in. Finally, the authorities--again--arbitrated in favor of the Lorraine dynasty. Usinor should not get ahead of Sacilor. And Baron Empain, should also not be allowed to dominate Creusot-Loire.

The baron is not exactly well looked upon: he tried to sell Jeumont-Schneider, another subsidiary of his estate, to Westinghouse; he managed to "oust" Mr Roger Gaspard out of Schneider and, after a transition under the chairmanship of Mr Jean Forgeot, managed to become chairman himself. His way of thinking--"I own, therefore I decide and I order"--does not please the authorities.

It does not please dignitaries in the Schneider group either which, in addition to Creusot-Loire also includes Spie-Batignolles (construction, public works), Ernault-Somua (machine-tools), Jeumont-Schneider and Merlin Gerin (electrical equipment). The baron announced he would do away with feudal strongholds and transform the conglomerate into a consistent industrial group. He asked Mr Rene Engen, manager of one of his Belgian businesses, to join him in carrying out this difficult task. Apart from rhetorics, the latter did not succeed.

Theater

The baron's kidnapping gave rise to new speculations: would the baron, whose private life made the headlines, not retire from business? He answered these speculations by reintegrating his seat at 42 Rue d'Anjou. Late in 1980, Mr Engen was ousted and replaced by Mr Pineau-Valencienne, then 49, a graduate of the Paris Higher Business School and Harvard, formerly with the Schneider group from which he had gone to Rhone-Poulenc where he had acquired the reputation of a brilliant manager.

New dramatic development in February 1981: the baron quit and sold his equity in Schneider to Paribas. This, commentators predicted, would lead to large-scale reorganizations in the French industry. When the bank on Rue d'Antin was nationalized, everything was put back into question. Mr Pineau-Valencienne, now chairman of the board, obtained a reduction of the influence of his powerful partner.

At the same time, he also persuaded Mr Mauroy to get him rid of ailing companies: Ernault-Somua, Dunkerque Shipyards and Normandy Metallurgical Company. In exchange, he promised to carry out the indispensable rationalizations and restore the financial position of Creusot-Loire. To this end, he persuaded the De Wendel family to reduce from 50 to 45 percent their holding in the joint company that owns Creusot-Loire; conversely, Schneider increased its holding from 50 to 55 percent!

The State, shareholders--the picture would not be complete if we failed to mention the role played by professional bodies. A preserve of graduates from the Paris Polytechnic, Creusot-Loire, like all metallurgical firms, suffered from the faults of its brilliant engineers who are more inclined to build than to destroy, more at ease to deliver than to sell, more gifted for technical feats than for the subtleties of operating statements.

The story of this agony is a sad one. Unfortunately, it is nothing but a catalog of the ills that plague traditional French heavy industries. Sooner or later, it had to cause a confrontation of the two actors that pulled the strings: the State and capital. Pretending to forget their past interventions, the authorities started to give lessons in management. As for shareholders, they asked reparation for their own failures.

Key Figures (Consolidated Figures in Million Francs)

	<u>1970</u>	<u>1974</u>	<u>1977</u>	<u>1978</u>	<u>1981¹</u>	<u>1982²</u>	<u>1983³</u>
Sales, exclusive of taxes	3,074	7,716	10,563	12,374	17,796	17,601	12,116
Equity capital, net position	638	984	1,300	1,199	389	-37	-604
DLMT [expansion unknown], financial debts	753	1,252	1,937	2,282	2,342	3,832	3,532
Cash flow	237	518	35	-17	362	-301	-1,493
Financial expenses, financial charges	167	448	856	767	800	832	1,741
Financial expenses/sales, exclusive of taxes	5.4%	5.8%	8.1%	6.2%	4.5%	4.7%	14.4%
Net result	37	83	-197	-354	28	-585	-1,807
Operating result	61	464	-82	-84	-44	156	14
Price per share:							
- high, in francs	-3	168.10	97	103.30	92	93.80	66.70
- low, in francs	-	103	53.10	48.60	31.50	47.40	30.60
Stock Exchange capitalization on 31 December	-	468	203	221	193	216	154

(1) 70 percent proportional integration of FRAMATOME.

(2) Including Phoenix Steel Co. 1982 and 1983 figures according to the new revised accounting plan.

(3) Listed on the Stock Exchange as of 18 January 1971.

The importance of Creusot-Loire, the stakes it represents and the determination of its chief executive officer add to the suspense. Already, however, those who are not on the stage--taxpayers and employees--know that they will have to foot the bill.

The 1983 Cleanup

Losses amounting to FF 1.807 billion (i.e. FF 150 million per month), FF 1.493 billion in financial expenses, FF 3.532 billion in financial debts and... FF 604 million in equity, such are the results for 1983. Yet, the accounts of the leading French heavy equipment manufacturer are only a partial reflection of the facts. Actually, Creusot-Loire organized a major cleanup in 1983. During that year, maximum provisions were made for all items, thus resulting in losses that bear no relations to operations.

Assuming a consolidation of a similar scope, taking into account the restructuring that took place last year, sales for 1982 would amount to a little under FF 10 billion, compared with FF 12 billion in 1983, thus confirming the technological competence and commercial reputation of Creusot-Loire.

The millstones around the company's neck are provided by the steelmaking branch, especially the U.S. subsidiary Phoenix Steel which was placed in receivership in 1983 and which no one wants to take over, and justly so.

Actually, whereas industrial operations are viable, financial management is a disaster. Financial charges are so heavy that no recovery can be expected for the time being. With FF 3.532 billion in financial debts at 8-10 percent, repayment only will amount to FF 300-350 million per year. As for equity, there is none left. To give a decent appearance to the group's balance sheet, it would take... FF 3 billion.

9294

CSO: 3519/393

SORBONNE ECONOMIST'S VIEWS ON 35-HOUR WORK WEEK

Paris LE NOUVEL ECONOMISTE in French 11 Jun 84 p 66

[Article by Raymond Soubie, associate professor at the Sorbonne Center for Applied Literary and Scientific Studies: "Risks Involved Should Things Get Out of Control; The Art of Reducing the Work Week"]

[Text] The reduction of the work week has suddenly reappeared as a subject of public discussion. The government is directly responsible for it. After exercising extreme caution on this subject since 1982 and limiting itself to punctual incentives in solidarity contracts, it appears to be making the 35-hour work week again a priority item of its policy. Mr Pierre Berégovoy denied some of the layoffs required by Citroen pending the doubtful results of a negotiation on the reduction of working hours; Mr Pierre Mauroy found again the accents of 1981 to celebrate the 35-hour work week: this is quite surprising in the present context of a policy of declared austerity.

In this case, the government is assuming four risks. First, to give rise again to ambiguities that were thought to have been dispelled. There is not one, but three ways to reduce the work week. Efficient firms can reduce working hours with no corresponding wage reduction insofar as this is compatible with their productivity gains. The adoption of the 35-hour work week is then a normal trend, an undeniable social progress; it is felt as such by workers, but it does not necessarily create jobs. Firms which are not in this position should not contemplate sharing work without sharing revenues, or they will lose their ability to compete. A reduction in working hours would then make some jobs available, but those among the wage earners who are concerned primarily about their purchasing power will see such a measure not as a progress but as an imposition. Of all things in the world, solidarity is not the one that is most evenly distributed. The unions are well aware of it and demand more or less that wages not be reduced. The trend that recently appeared at the CFDT [French Democratic Confederation of Labor] is significant in this respect. Actually, this way of reducing the work week can be used without any social resentment in two possible cases: by having recourse to part-time work, or by a common sharing of revenues in firms where jobs are threatened. Finally, the worst method is of course to reduce the work week without a corresponding wage reduction in firms which have not experienced significant productivity gains: this will destroy the firm's ability to compete and create unemployment. This distinction between the three methods

had been adopted by the government not so long ago. It now seems to be somewhat forgotten.

The second risk it runs is to give rise to social tensions at a time when it is in its interest to avoid them. The unions, already impressed by the example of the German metallurgical industry, will increase their pressure for this demand. They will turn to private employers, but also to the State, the employer of the nationalized sector. If they are not given satisfaction, they will ask the government to intervene. The latter will then find itself on the front line.

Those among employers who were responsive to the president of the Republic's advances and to the official economic austerity, will from now on wonder how credible these are.

Finally, how will our partners in industrialized countries judge what they will see as inconsistency on the part of the government and a breach of solidarity among European states in the face of the crisis?

We understand the reasons underlying recent government statements or decisions: desire to find its "second wind" in social matters, to get closer to the unions, to imagine or appear to be imagining solutions to continued unemployment. But the government has embarked on a difficult policy: it cannot afford to hesitate as to what its objectives are or to waste a few trump cards. It is possible to reduce the work week, but under certain conditions only; it would be a pity to forget it.

9294

CSO: 3519/393

BUSINESSMEN DEMAND END TO DISCRIMINATING MEASURES

Athens POLITIKA THEMATA in Greek 8-14 Jun 84 p 34

[Text] Resolution to the president of Greece and the Greek political world.

Those who support private enterprise--merchants, craftsmen, industrialists, professionals--regardless of their small, medium, or large size, who are participating in this evening's meeting through their chosen representatives, the organizations of the productive classes which represent more than 500,000 families which are not absent from any national struggle,

I. Certify that:

Greece's economic situation is continually getting worse, and the number of enterprises which are succumbing every day to the increasing number of intense problems and obstacles is growing.

The endless market inspection measures and the decisions which are being made, especially by the Ministry of Commerce, are making the problems more acute and thus are having devastating results for professionals and enterprises.

Correspondingly, the swelling of the public sector is being continued undiminished, as are the creation of new state monopolies and semi-state sectors and the granting of privileges at the expense of private enterprise.

All these things are inflicting a stifling collar upon the activities of private enterprise, accentuating the difficulties, and driving new enterprises into shutting down, resulting in deadlocking the entire economy.

II. Believe that:

In order for the crisis to cease,

In order for the economy to be effective again,

In order for us to get out from under the slump,

And in order for unemployment to be absorbed,

What is required is the support of private initiative and the freeing, within the framework of legality, of the productive forces of the economy.

On the contrary, the state's continuous expansion and high-handed interference, which are crushing private enterprise, are prolonging the crisis and removing hopes for a recovery.

III. Have the sense that:

The unity of the productive classes, as it appeared at the meeting in Athens on 31 May, is today, more than at any other time, advantageous and necessary since every large, medium, or small merchant, craftsman, or professional cannot exist without the others.

Facing in common the dangers which threaten the Greek economy is made still more indispensable with the conviction that the protection of economic freedom will benefit the workers and the enterprises as much as all of society.

And demand:

1. That the decrees which are continually creating state monopolies, providing prerogative to every non-private enterprise, and utterly destroying private initiative be lifted.

2. That the application of the measures decreed by the Ministry of Commerce during the last three months be deferred, and that the taking of new decisions be postponed which, like earlier ones:

Give the Ministry of Commerce the absolute right to be arbitrary and take people off guard.

Permit the imposition of irreversible judicial penalties, without the possibility of a second degree judgment.

Prescribe unchecked government retroactivity.

Leave unclear and boundless the functioning limits and aims of organizations which are being founded such as EMPO [expansion unknown], and so forth.

Make the market inspection police the absolute regulators of our economic lives.

3. That a reform of these measures be pursued, with the active participation of the representative organizations of the productive classes.

4. That there exist substantial participation on the part of the productive classes in the taking of decisions which relate not only to their lives but also to the future of the Greek economy.

Executive Committee of the Commercial Associations of Greece
General Confederation of Tradesmen and Craftsmen of Greece
Association of Greek Industrialists

Panhellenic Federation of Commercial Branch Organizations
Association of Retail Enterprises of Greece
Association of Supermarket Enterprises of Greece
Union of Chambers of Commerce and Industry of Greece

11587

CSO: 3521/264

SUCCESSIONS, SETBACKS OF GOVERNMENT ECONOMIC POLICY

Vienna INDUSTRIE in German 6 Jun 84 pp 33-37

[Article by Dr Heinz Glueck, university instructor and desk officer at the Austrian National Bank: "The Dutch Syndrome"]

[Text] The Dutch are our second-best-liked tourism guests. However, lately they have been staying away somewhat, undoubtedly also caused by the very difficult situation that prevails in the Dutch economy.

In the sixties and in part also in the seventies, the Dutch were regarded as the economic star pupils of the continent. Based on the Tinbergen School it was especially the Central Planning Office in The Hague which upheld the belief in the possibility of fine-tuning the economy with quantitative methods of modern economics, far advanced for conditions at that time. The successes seemed to bear out this view.

But times have changed: today the Dutch no longer need fine-tuning; they would be happy to be able to achieve something with a little general tuning. For the situation is bad: In 1981 and 1982, the GNP declined by 1.2 percent each and rose by about 1 percent in 1983. Private consumption and especially investment activity greatly declined in 1981 and 1982 and experienced a mild recovery in 1983. Positive factors in the past few years were merely the development of inflation and of the balance of payments.

Unemployment increased from 5.1 percent in 1979--then one of the lowest in the OECD area--to more than 15 percent on the average in 1983 (with peaks over 17 percent in some months). The statisticians of the Brussels EC Commission obtained a somewhat lower percentage since they relate the number of unemployed to all persons capable of gainful employment (including the self-employed)--on one thing Dutch and European statisticians are agreed: the trend is disturbing. If hidden unemployment, too, were to be taken into account, in the opinion of the OECD this would result in the highest unemployment of all industrial countries, a negative record that must be especially surprising in a country that, on the other hand, is numbered among the richest within the OECD and that is today practically self-sufficient in the energy field.

How could that happen?

Dutch Disease

The Dutch economy is afflicted by something that has already become part of the economic literature under the term "Dutch disease" and has been analyzed. Symptoms and course of the disease are approximately as follows:

Picture a rather small open economy with an exposed sector that is subjected to foreign competition and a protected sector to which the latter does not apply. A part of the exposed sector may get into a very heavy boom, perhaps on account of certain international economic developments.

In the case of the Netherlands, this boom sector was the natural gas industry, in Norway perhaps oil production in the North Sea.

Subsequently two sectors develop within the exposed sector whose development proceeds more and more disharmoniously the more distinct the boom in the one sector proceeds. The old-established, so-to-speak "traditional" export industries come under heavy pressure. For the business transactions in the boom sector start to dominate everything. The wage level rises quickly here because some workers must be wooed over. So as not to lose all skilled workers, the lagging sector must keep pace with the wage increases at least in part even though there is no basis for that in the economic situation of these enterprises.

But the weaker part of the export sector comes under pressure from another side, too: The good foreign trade results of the expanding part tend to force up the exchange rate of the country; the products become more expensive for the foreign customer.

The yield situation of the enterprises in the lagging sector of the export trade thus is depressed twofold: By increasing labor costs and a high exchange rate. As a consequence, this sector will lose market shares on the world markets, some firms must shut down and dismiss workers. A relative "disindustrialization" sets in.

It is interesting to note that the boom in the one area of the economy does not --as would be expected--soon pull along the other sector in the upswing but on the contrary in part pushes it into increasingly greater difficulties in the sense indicated above.

Thus far the theory. It should be added that not only the Netherlands but also some other countries are wrestling with similar problems, namely, e.g., Australia with its expanding mining sector, Great Britain--and as already mentioned--Norway with their oil deposits as well as a series of developing and threshold countries. OPEC countries in general do not have such problems because they hardly possess any more highly developed industrial sectors which could be affected by a "Dutch disease" as a consequence of expanding oil production.

Let us examine in detail by the example of The Netherlands the measures taken by the national economic policy there to cope with the described difficulties and

what success they had in doing so. For nearly 5 years the Dutch governments have now been wrestling with stagnation and recession but the problems had of course been apparent for a longer time.

Subsidies Without Success

The Christian Democratic-Social Democratic governments under Prime Minister Joop den Uyl tried in the seventies to ameliorate the worst effects of the Dutch disease by subsidies to the distressed sectors of the economy, by transfers and social security benefits which were supposed to at least stabilize demand. However, as a result the deficits of the public budget increased quickly while the further decline of the profitability in the nonbooming part of the export trade could hardly be prevented. Finally, 60 percent of the national income was distributed outside the market. In the opinion of the OECD, the functioning of the labor market was impaired by certain social insurance payments, which referred primarily to wage-price indexing. At any rate in those years it was still possible to hold the unemployment rate at about 5 percent.

After new elections and formation of the Center-Right coalition under Prime Minister Dries van Agt, the economic policy rudder was reversed at the end of 1979. The wage-price automatism in the form of wage indexing was supposed to be reduced and maximum limits for wage increases were supposed to be decreed. Savings were to be achieved in government spending and social welfare payments reduced. Costs were to be shifted from the enterprises to the employed persons. This prescription is valid to this day and was subsequently tightened; the direction was and is clear: The enterprises in the nonbooming part of the export trade were to be helped by all kinds of relief and their profitability was to be improved.

It was inevitable that in this situation various sides tried to blame "the state" as such for the entire malaise. However, those who have recognized the causes of the "Dutch disease" as described above easily will be able to classify such statements as too superficial. Nevertheless the Center-Right government under Ruud Lubbers formed following the new elections of the fall of 1982 proclaimed "deregulation" on its economic policy banners.

This term denotes elimination of all restrictions which impede profitable functioning of the private sector. This signifies the recission of existing laws and conventions, which range from wage guidelines to environmental protection obligations, regulations that are part of a welfare state, but are regarded by the government as an obstacle to the development of the market sector.

In the spirit of this program and to reduce the budget deficits, starting about 1981 the governments gave up all attempts to prevent the increase in unemployment by job-maintaining and job-creating measures, a course which entailed the abovementioned rapid increase in the unemployment rate.

As further elements of this course of action, the Ministry for Social Affairs and Employment mentions tightening of a restrictive catalogue of subsidies, new tax relief for the enterprises as well as all energy, price, export, and

technology policies. Budgetary stimuli for the improvement of the employment situation were generally rejected. In 1984, one billion guilders is to be spent for work-promoting measures, but in fact what is involved here are individual activities without any clear connection which are probably kept in the budget because they look good.

In this 1984 budget proposal, diagnosis and therapy, too, for the economy and public finances are presented from the government's point of view. 1. Consumption in the private and also in the public sector continues to be too high and has been the direct cause of the decline in investments. 2. The reduction of state expenditures must lead not only to a reduction of the budget deficit but also to a lessening of the tax pressure. 3. More opportunities for investments must be created.

Nothing of all this is new and the governments of other countries are also trying to achieve these goals. For Dutch conditions the consistency with which the present government implements this therapy is, however, unusual. This year the citizens are not only asked once again to pay (by higher taxes on alcohol, tobacco and cigarettes and by increases of most VAT rates by one percent) but lately also real wages are to decline by 0.5-3.5 percent, in public service by at least 3-4 percent. But additional economizing in the public service causes an even considerably greater loss of purchasing power of the officials. Several months of strikes by public employees last fall could not change anything in this regard.

Tax Relief

Furthermore, the plants can expect additional tax relief, for example by reduction of the corporation tax. However, not only employed persons but also recipients of social transfer payments must swallow the bitter pill: unemployment benefits, social welfare benefits, social insurance payments, and retirement pay and the like were reduced by 3.5 percent effective 1 January. There will be a further reduction on 1 July. The children's allowance, too, will no longer be adjusted to the inflation.

Lubbers's cabinet even experimented with a reduction of the working hours but connected with corresponding wage reductions. The Dutch social affairs ministry, too, regards the reduction of working hours as an important component to containment of unemployment. Wage contracts have already been concluded for roughly 70 percent of those employed in private industry with an average reduction of working hours of 5 percent by 1985. But this reduction in working hours swapped for wage reduction thus far has not yet had the desired effect.

In short, since about 1981 the Dutch government has been betting on the mechanism of more profits, more investments, more jobs to heal the "Dutch disease."

It may be granted that such a process--if one believes in it--must be kept up for several years if possible until it can fully develop; in this case the problem may arise how long a government can expect its people to take this treatment. Thus far, at any rate, success cannot be claimed for this policy in the Netherlands. The rate of unemployment continues to rise almost unchecked.

Actually the profit situation of the enterprises was improved by the reduction of the privately available income. Profits rose as planned and the improvement of the climate in favor of the enterprises is generally acknowledged. But in addition to the tax burden, there is a further crucial problem for profitability and competitiveness of the plants, namely an unfavorable product structure and it cannot be changed by an improvement of the profitability unless investments are made.

This very thing does not occur for the time being. The leeway created by the financial relief was hardly used for new investments but merely to polish up the balance sheets since the sales expectation did not improve with declining real income of the general population. The investments that were made were replacement investments or--with the high interest rates tempting--financial assets. Expansions of installations were not undertaken. Of course, this way no jobs are created either.

Mild Revival Noted

Nevertheless during the past few months a mild business recovery has been noted in the Netherlands. Industrial production rose and OECD again expects a more than one percent GDP growth. In a search for the causes of the revival, export activity seems to present itself as the only one. The increased foreign demand apparently has stimulated production more strongly than the financial relief programs of the government were able to accomplish, even NEUE ZUERCHER ZEITUNG critically observes.

The wage policy of past years had a pronounced effect on the competitiveness of the Dutch enterprises. The unit labor costs during the past 3 years have risen one third less strongly than those of the average of the industrial states and are clearly below those of the principal competitor, the FRG. But does that suffice as a strategy?

Unemployment Rate

Nevertheless with only average advanced products it will not be possible to compete with the prices of the developing and threshold countries.

The favorable foreign demand has finally led to a somewhat slowed-down increase in unemployment. But that cannot even be regarded as the silver lining on the horizon, for even if this trend continues, it remains a complete mystery how to reduce a 19-percent unemployment rate, as it is expected for 1984, NEUE ZUERCHER ZEITUNG, a newspaper that is otherwise not opposed to experiments of this type, comments. A high base of permanent unemployed must be feared for the next few years, especially considering the kind of investments to be made in the future based on the latest technological innovations.

Consequences for Austria

It may be left to the reader whether he believes that the correct therapy has been found here against the "Dutch disease." It is clear that the patient will long suffer from the consequences of this disease (and also the therapy?). The Austrian tourism industry will not be happy about that.

DEPENDENCE OF ECONOMY ON FOREIGN CAPITAL DISCUSSED

Lisbon O JORNAL in Portuguese 15 Jun 84 p 22

[Commentary in "Domestic Economy" column by F. da Granja]

[Text] Two weeks ago, in these columns, we set forth the hypothesis that Mota Pinto will be sold out by his prime minister, so frequently has he seemed to offer a public defense, by remote control, we admit, of solutions without the least practical feasibility, although in some cases with a certain theoretical consistency. The fact is that, now that some time has passed, people are laughing--and nothing is worse for the image of a politician than that ironic smile with a tinge of contempt.

We then considered concretely--although there were other things--two issues on which the PSD [Social Democratic Party] leader insisted on offering a tightly woven defense: elimination of the collection of bank interest in advance and authorization for the establishment of foreign currency accounts. And when the press comments that there had not been any governmental reorganization, since instead of this, Mota Pinto imposed a period of 2 months for the adoption of a certain number of structural measures, we feel as if we were talking to ourselves: "There he goes again!" But perhaps due to an awareness of this there appeared a reference, although hastily crossed out in the most recent address, to another aspect on which a battle is also being waged: liberalization of dismissals. Is this realism? Disbelief? Or simply (finally!) fear of ridicule?

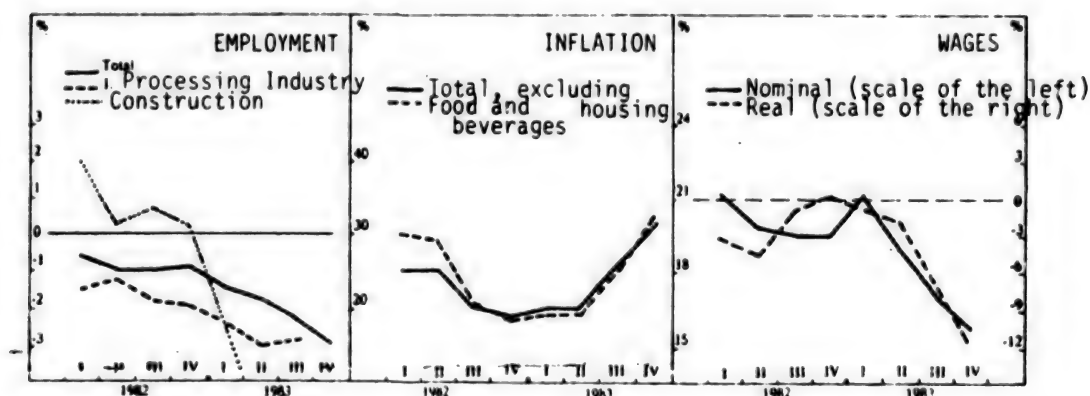
Well, we will now await the famous 2 months.

Meanwhile, and anticipating the regular report of the Bank of Portugal somewhat, the Situational Analysis and Planning Studies Institute (IACEP) undertook a first overall approach to the status of the Portuguese economy in 1983, and with the exception of some aspects related to the balance of payments, the picture is appalling!

Almost 200,000 Dismissals?

Let us focus on some of the more important indices and let us see what is happening (see Chart 1).

Chart 1--Development of Employment, Inflation and Wages



At the end of 1983, and in comparison to the same period the preceding year, employment was down 2.8 percent (representing 112,000 jobs lost!), prices were up more than 30 percent, and real wages had declined by almost 12 percent. This is the blackest antisocial picture in memory since 25 April.

How is it possible that everything has deteriorated so much and so fast?

Source: IACEP

According to the IACEP estimates, the employment level had declined about 2.8 percent in the fourth quarter of 1983 as compared to the same period in the previous year. This is a worrisome figure since, taking as a basis an active employed population of about 4 million individuals, this means that in the year now ended alone, something like 112,000 workers lost their jobs.

As normally happens in cases such as this, the phenomenon is not uniformly distributed among the various sectors. For example, the primary sector, and above all the civil construction and public works sectors, were those most seriously affected, followed by activities related to the processing industry. On the other hand, such sectors as electricity, banking and insurance saw a further increase in personnel, basically, it can be suggested, because they are unrelated to any significant increase in activity, with pressure, influence and the need in some cases to obtain jobs at all costs. The price is paid in productivity, and, automatically, in inflation.

The production values for 1983 are not yet known, but according to some estimates which have already been put forth, it appears that they will come to 0.5 percent less than the 1982 figure. Employment, in turn, which has been declining, above all since the second half of last year, will have dropped by an average of 2 percent throughout the year, but reaching 2.8 percent by the end of the year. If this is the case, productivity will be up only 1.5 percent, as compared to an average improvement of about 2.5 percent for the preceding years. But with a decline in productivity, it is obvious that average costs increase, and here we see confirmation once again of the thesis we have

long defended: the origin of inflation lies basically in the model characterized by contraction which has been adopted.

As we have said, about 112,000 workers will have lost their jobs in 1983. But the real increase in unemployment is greater, since to those dismissed we must add the new workers added to the labor market every year--something like 45-50,000. And, naturally, we are referring only to the end of last year, when the economic policy had not recently suffered any change, and yet, in the present year unemployment is continuing to rise.

When we began this series of articles in October of 1983, we estimated the number of dismissals to the end of that year at about 200,000. Do those individuals who were greatly alarmed at that time, thinking this was somewhat of an overstatement, still think that we were exaggerating?

Situation Worse Than in 1973

Where prices are concerned, we have already stated our views in recent analyses, and there is no justification, at least as yet, for a new discussion of the problem. Let us merely note once again, as a framework for other indices, what we have already stressed here numerous times: prices, which showed signs of a certain modification in their rise beginning in the third quarter of 1982, took off again immediately after the present government took office, and finally, at the end of 1983, reached one of the sharpest upward curves ever. Worse than that, it was in food products that this increase made itself felt--precisely the most sensitive area, where most people can no longer tolerate more.

To the mass dismissals and the price cavalcade there was yet another element to be added in order to complete the picture: the spectacular drop in wages--and even further, in some cases, wages owing.

During 1982, nominal wages had increased at a rate of nearly 20 percent, which was not enough to offset inflation, which averaged about 22.4 percent.

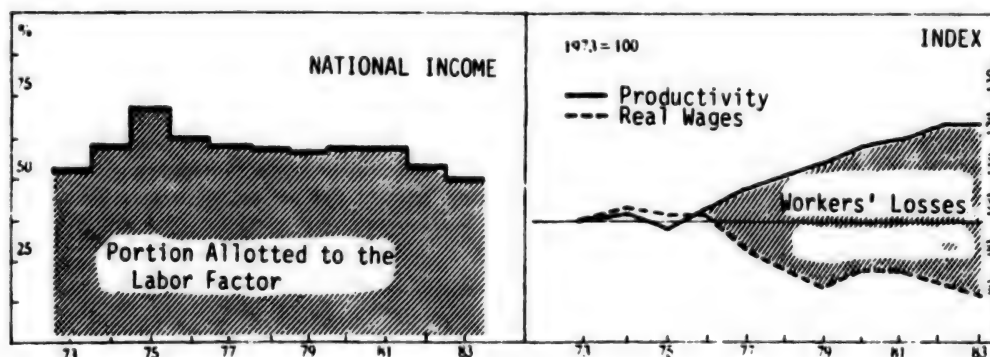
It was a question, then, of a turn toward negative real indices, which had not happened since 1979. With the approach of the legislative elections at the beginning of 1983, real wages began to increase again a little, until, with the installation of the new government, what we believe was the worst antiwage attack in memory since 25 April was launched: down 6.8 percent in the third quarter, and 11.9 percent in the fourth quarter of 1983, again with reference to the comparable periods the preceding year! All things considered, and without going into details of the tax incidence, which is likely to have gone up equally, the balance for the year 1983 must have been a decline in real wages of about 5 percent--and with more of a trend toward the end which has certainly grown stronger in these early months of 1984.

Unlike what happened with employment, however, where there are very important sectorial variations, the blows of the ax in terms of wages fell practically equally on all. In the last quarter of 1983, for example, it was the rural workers who were most affected (-15.7 percent), but neither did those least

affected, in this case the civil construction workers, have any reason for rejoicing (-10.5 percent).

With a decline of 0.5 percent in the product, 2 percent in employment and 5 percent in wages, that part of the national income allocated to the labor factor began again to be reduced still further. Today it is not far from 50 percent, after having reached 53 percent at the end of 1983. And despite the successive improvements in productivity, real average wages today are clearly below the figures recorded then (see Chart 2). We have here a situation which was unimaginable 10 years ago!

Chart 2--Distribution of National Income



With a decline in real wages far exceeding the decline in the product, the already inadequate portion of national income allocated to the labor factor deteriorated further. Here too, the situation today is worse than that in 1973.

Source: IACEP-Bank of Portugal

Well-Ripened Fruit--For Others

We have nothing personal against this government, the characteristics of which corresponded at the outset to the solution which has always seemed proper to us, and wherein, in addition, a number of our friends are employed. But the figures speak for themselves, and they are not compatible with sentimentalism. There is one doubt, moreover, which we can legitimately raise: how is it possible that three of the most important indicators of social stability--employment, inflation and wages--have deteriorated so much and so fast?

Let us seek to reason objectively, using the figures available.

Fact No 1: The need, the urgency, at the time, of adopting measures designed to curb the foreign deficit, on pain of a financial collapse some time subsequently, did not in itself justify going so far. We ourselves went so far as

to attempt to set forth in these columns alternative models which were socially less burdensome. However, it was thus because it was wanted thus.

Fact No 2: As of the moment we lost international credibility, it became clear that an agreement with the IMF was inevitable, with all this entailed of yielding, submission and implementation of others' ideas, independent of what we might think. And no one is unaware of the formulas invariably imposed by the IMF. Note that we call this a fact, and never a criticism of the government, which in this light it could not be.

Fact No 3: The model implemented--or imposed--presumed a limited period of time, because it is not reasonable to expect that the holes in the belt, even if it is tightened gradually, will extend to infinity. A break is then inevitable, toward one side or the other: it is a problem of time. Those behind the IMF decisions know this is true as well.

The explanation for the Portuguese phenomenon has these three facts as its basis, and it is, to summarize, as follows. 1) The people of Portugal have already proven incapable of defining a minimally believable model for development, and in addition, they have no money, so that the money and the ideas must come from outside, through foreign investment. 2) International capitalists will only come when they are assured of two conditions as a minimum: ease of dismissal and lower wage levels. 3) The policy pursued to date is like the preamble to the goals sought: the Portuguese worker, earning ever less, is also becoming ever less aggressive, fearing that he will further lose the little he still has. Is it not obvious that if this were not the case, there would already have been another revolution?

We believe that the fruit is almost ripe. One of these days a mountain of foreign investments will cascade down there--that outside model needed to make up the inadequacies within.

If there is still a country....

5157

CSO: 3542/66

POLL SHOWS ECONOMIC OPTIMISM RISING

Lisbon O JORNAL in Portuguese 15 Jun 84 p 18

[Text] The hope of better days, both with regard to the economy of the country and with regard to the economic situation of each individual and his family, continued to show a slight upward trend in May, although those who believe in recovery continue to be few.

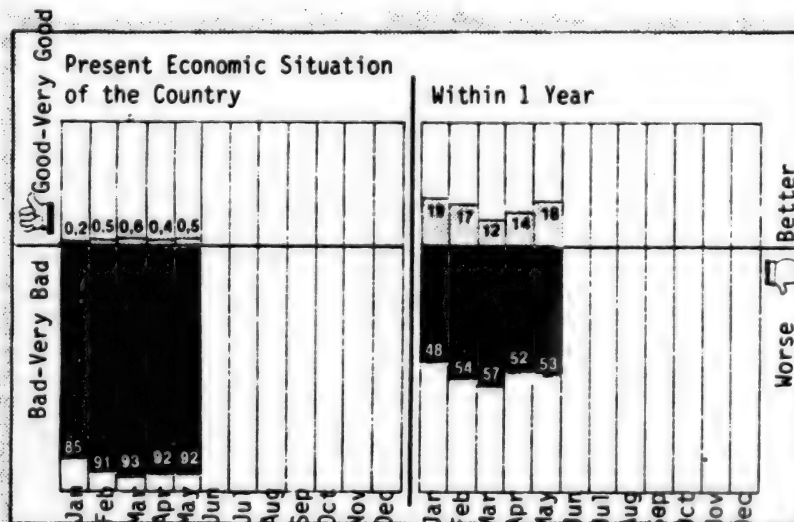
At least 9 out of every 10 Portuguese citizens continue to think that the economic situation in the country is very serious, but half of the voters indicate readiness to believe that it may be better within a year.

This was the feeling of the Portuguese people during the week of 4-11 May, using the Marktest-O JORNAL survey as a barometer.

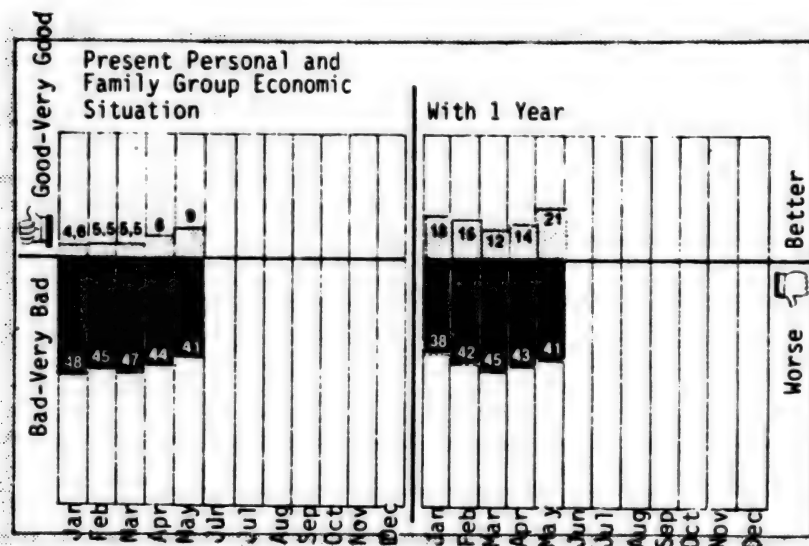
In fact, one out of every five Portuguese citizens (21 percent) was reported to believe that his personal and family economic situation will improve within a year, while 4 out of 10 (41 percent) believe that it is bad and will not improve.

Despite this heavily negative view, there is a slight trend toward a narrower range of pessimism, together with an increase in the number of those who believe in improvement.

Some light at the end of the tunnel...



...only (perhaps) a year from now



5157

CSO: 3542/66

BALANCE OF TRADE WITH CAPE VERDE FAVORS PORTUGAL

Lisbon DIARIO DE NOTICIAS in Portuguese 17 Jun 84 p 7

[Text] The value of imports by Cape Verde from Portugal more than doubled between 1978 and 1982, the ANOP learned from official sources in the city of Praia. Cape Verde imported Portuguese goods worth 650,000 local contos in 1978, while the total in 1982 came to 1.5 million contos. These figures are the approximate equivalent of 1.3 million contos and 3 million contos, respectively, in Portuguese currency.

The balance of exports and imports shows a net figure in Lisbon's favor of about 1.5 million cntos in 1982 as compared to 600,000 in 1978. According to the figures available to date, imports from Portugal in the first half of 1983 came to a total of about 900,000 Cape Verdean contos, showing a balance favorable to Lisbon of about 800,000 contos.

Cape Verde continues to be Portugal's third best client in Africa south of the Sahara, surpassed only by Angola and Mozambique. According to data obtained from the Bank of Portugal, that country is making its payments due to Portugal within the established time periods.

In 1975, Portugal sold goods worth less than half a million contos to Cape Verde, while it is now marketing on that archipelago products exceeding a million and a half contos in value, in terms of Cape Verdean currency, the value of which is approximately double that of the Portuguese currency today.

Up to February of 1984, Cape Verde had used only 24 percent of a credit line of \$30 million made available by Portugal in 1981 (about 4 million contos, at the current Portuguese exchange rate). From February to the end of May this year, Cape Verdean trade will have used 3 or 4 percent more of this credit, above all for the purpose of purchasing equipment and materials for civil construction.

Commercial operators in Cape Verde point to the "extensive bureaucratic requirements for obtaining release of the funds allocated by this process" as among the main reasons for the limited use of this credit line. On the other hand, they add, the type of products covered by this credit line is not "that best suited to the current needs of the country." As a supplement to this information, the ANOP learned in the city of Praia that the Bank of Cape Verde intends to infuse greater dynamism into the use of this credit line on a larger scale.

Meanwhile, Amador Coelho of the Ministry of Foreign Affairs expressed the view in Lisbon yesterday that cooperation with Cape Verde has served as a "pivot" for cooperation with the Portuguese-speaking countries of Africa. This official spoke at a seminar sponsored by the Center for Cooperative and Development Actions at the Adelino Amaro da Costa Democracy and Freedom Institute.

5157

CSO: 3542/66

GOVERNMENT MEASURES TO REDUCE BUDGET DEFICIT

Madrid ABC in Spanish 21 Jun 84 p 55

[Article by Vicente Clavec]

[Text] Madrid. A third of the reduction in the budget deficit, approved by the council of ministers yesterday, will come from increased tax revenues. Of the 308.131 billion of the budget deficit reduction, 207.131 billion will come from spending cuts, and the remaining 101 billion will be obtained by increasing pressure on the taxpayers.

The decrease in government spending will be brought about in two ways. First of all, by turning down requests for funding amounting to 170 billion pesetas, made by different ministries since the start of this fiscal year. And secondly, by eliminating 37.131 billion pesetas in funding already authorized for 13 departments, including some cuts which will cause special hardship for education and science, cut by 5.32 billion; economy and finance, with cuts of 4.605 billion; and public works and city planning, with cuts of 4.5 billion.

The administration has adopted four measures to increase revenues: to extend the business traffic tax to include operations performed by independent professionals; to reduce the tax reduction on exports; to eliminate specific exemptions in the ITE [Business Traffic Tax] for primary infrastructure and equipment; and to improve the results of the Financial and Tax Inspection, in order to increase the revenues collected by some 40 billion pesetas this year.

The extension of the general business traffic tax to artists and professionals (attorneys, doctors, and all who operate under a tax license) will boost revenues by about 10 billion pesetas. As this newspaper reported earlier (see ABC, 4 May), the tax system for this category will be substantially changed, since these persons will now be treated like companies, instead of

paying the individual income tax, after dividing it by means of the "objective single or direct estimate."

The ministry of finance expects to collect additional revenues of about 35 billion pesetas by lowering the tax reduction on exports by 15 percent. This measure has three aspects: changing the system of calculation of the reduction base; decreasing applicable rates; and altering the coefficients for the special base for steel products, textiles, and books. The revenue scheduled for the second half of 1984 supposes 2 percent of the total value of exports in this period.

The government justifies both taxing professionals and artists according to the ITE system and the reduction in tax benefits to exporters by the future implementation of the Value Added Tax in Spain. According to the council of ministers, this is a matter of adapting Spain's tax structure to the structure used within the Common Market.

In conclusion, the ITE exemptions that are being eliminated (construction or rehabilitation of public buildings, parks, gardens, and roadways in urban areas) will bring 16 billion pesetas into the treasury in 1984.

7679

CSO: 3548/277

MORAN PLEASED WITH RECENT EEC TALKS

Madrid ABC in Spanish 21 Jun 84 p 57

[Text] Yesterday after returning from Luxembourg, the minister of foreign affairs and secretary of state for relations with the EEC expressed satisfaction about the progress made in negotiations with the Community. According to Moran [minister of foreign affairs], the "Ten" have now for the first time accepted the principles of equilibrium, progression, and globality. This is the most important result of the talks, since "it is the framework which will determine the equilibrium of interests for Spain."

The Spanish and Community positions on integration moved slightly closer together as a result of the Luxembourg meeting, which lasted until early yesterday morning. Participating in the meeting were the Spanish delegation, the outgoing French presidential staff, the incoming Irish presidential staff, and the European Commission. Spain has accepted a phased system for fruits and vegetables in exchange for protection of products which are sensitive for Spain (meat, dairy products, sugar, and grains).

Upon arriving from Madrid yesterday, Fernando Moran said that the negotiations had been interesting and lengthy, and rather than difficult, very intense, "though for the first time we analyzed the overall situation of how the negotiations are proceeding and what objectives the negotiations should pursue." He said that they had discussed industrial and agricultural development issues, but not fishing, olive oil, and wines. For that reason, he added, "it is impossible to get an idea of equilibrium in the agricultural sector." Nonetheless, in the preliminary agreement that has been reached, the two-phase concept has disappeared.

In the industrial area, the minister spoke of differing views on the rate of tariff dismantling, and on the period that should be allowed for this process. While the EEC says that this

process should proceed rapidly in the beginning, the Spanish delegation wants the initial rate to be slow, increasing toward the end, to help industries that are less competitive to survive.

On the subject of fishing, for which Spain presented its counterproposal, Moran described the Community position as quite inflexible. Spain wants a non-existent transition period, without licenses, with an increase in quotas for the catch, and access to its 12 miles.

Moran said that no items had been completed, but there had been a configuration of what some of the future negotiations may cover. The talks are scheduled to resume in July under the Irish leadership, which is to set the calendar. In principle the dates now set for the negotiations are 23 and 24 July, 3 September, and 18, 19, or 20 October.

In referring to the upcoming Community summit in Fontainebleau, Moran said that if the Community problems are not resolved, Spain's ratification will not be possible, but if they are, the negotiations will be completed and the agreement will be signed.

7679

CSO: 3548/277

LABOR, BUSINESS ASSESS OZAL'S FIRST 6 MONTHS

Istanbul TERCUMAN in Turkish 12 Jun 84 p 10

[Article by Resat Yazici: "Labor, Management, Business Representatives Meet"]

[Text] Ankara (TERCUMAN) -- In an evaluation of the Ozal administration's first 6 months in office, labor and management leaders said progress was not promising. Leaders of the Turkish Confederation of Trades and Crafts [TESK], however, said it was too early yet for an assessment of the administration's achievements.

TURK-IS View

TURK-IS [Turkish Confederation of Labor] President Sevket Yilmaz said that they were looking at the period following restoration of democracy primarily from the economic and social angle. Noting that they had voiced criticisms from time to time on these matters, Yilmaz added, "However, there are those in Turkey who think they are the only ones who understand the economy. They do not want to hear proposals and suggestions from labor. This has been the picture for years."

Yilmaz said it was impossible to be optimistic that things would improve in the future and, in evaluating the administration's progress, added:

"Our grandfathers told our fathers to tighten their belts, our fathers told us, and we are telling our children. Each time, 3 to 5 years is offered as the time required before they can be loosened again.

"It is impossible today to look forward 3 to 5 years hence with hope or optimism."

"Unemployment is steadily increasing. Nothing is being done about this. And a further rise in unemployment is the inevitable result of the interest policy being pursued. The groups consisting of low and fixed income people, such as workers, civil servants, retirees, widows, orphans, small businessmen and farmers are worse off than they used to be, never mind improving their lot."

TURK-IS President Yilmaz concluded with the remark: "With prices rising out of sight and price hikes being made at short intervals on all goods and services, especially gasoline, the value of money is falling rapidly.

"The minimum wage recently set for workers and the Supreme Arbitration Council's decision in principle on wage increases became obsolete in a month or two. We are the people who live with the economy every day in the markets, the grocery stores and the butcher shops. We have our belts on the last hole. The bottom of the barrel has been scraped. The kitchen is closed."

Halit Narin, president of the Turkish Confederation of Employers Unions [TISK], said it was necessary for the Ozal administration to research the causes for the things it had been unable to do in its first 6 months and to specify what it would be able to do in the period ahead. Scoring the high cost of living, Narin called for "taking low prices out of the realm of illusion." Narin said:

"Our prime minister and his government must take stock of what they have accomplished in 6 months, discern the causes for what they were unable to do in 6 months and then begin on their second 6 months. The people's expectations and industrialists' hopes for investment must be set earnestly on firm foundations. Low prices must be taken out of the realm of illusion and realism must be preserved in the government program."

TISK President Narin went on to criticize the tax system, saying:

"There are taxes and assessments up to 200 percent which are against the interests of the middle class in the automotive industry. In the textile industry, high customs duties on certain synthetic fibers make the domestic production and sale very costly.

"Our prime minister must be sensitive to the expectations of the people and the need to revise these incentives from A to Z, in anticipation of phasing them out. Export incentives must be reduced to the lowest figures possible.

"The high interest policy simply must be dealt with. For Turkey's future and security, there is a need for a new modus operandi to wipe out the idea of devaluation of the Turkish lira, the precursor of inflation."

Narin also criticized the tight money policy and conglomerate banking. He said on these topics:

"It is always forgotten that the premise behind the money-credit and tight money policy is wrong from the standpoint of industrialists and investors and puts pressure on the economy. It is wrong for the manufacturer and investor with their desire to produce unfulfilled to be involuntarily under-producing and forced to do so, creating overall high costs in the Turkish economy.

"The measure which the government must take in this regard is to begin initiatives to ensure more rapid adjustment to realistic banking, instead of supporting conglomerate banking and Turkish banking with higher interest rates and profits. This wrong and misguided support and encouragement of banking must be discontinued."

Reasonable Time

TESK President Husamettin Tiyanan, in his evaluation of the first 6 months, said it was necessary to bear in mind the two different elections which the country has been through in this period. He said it was too early yet to measure the administration's degree of success or evaluate the situation. "In our opinion, it would be better to assess its accomplishments after a reasonable period of time," said Tiyanan. He continued:

"We tradesmen and craftsmen, who constitute a large segment of society, have expectations in this regard. The first items on the agenda of the national economy today are inflation and unemployment. Inflation is an important factor which makes it impossible for the price mechanism to function normally, distorts income and resource distribution, has a negative effect on savings and investments, and further increases unemployment. What is being attempted is to bring inflation under control and keep it below a level of around 20 percent. If this is accomplished, it will be a great success indeed.

"Tradesmen and craftsmen, unable to replace the goods they buy at the same price, what with the shortages, price increases and lack of credit brought on by the money squeeze, are the sector worst affected by inflation. It is because of this that our Constitution demands their protection by the state.

"As tradesmen and craftsmen, moreover, we are calling for low-interest, long-term credit."

8349

CSO: 3554/253

OZAL RESPONDS TO WIDE RANGE OF ECONOMIC ISSUES

Istanbul TERCUMAN in Turkish 12 Jun 84 pp 1, 10

[Impromptu press conference with Prime Minister Ozal at Cankaya Palace, 11 Jun 84]

[Text] Ankara (TERCUMAN) -- President Kenan Evren received Prime Minister Turgut Ozal at Cankaya at 1000 hours yesterday for their weekly meeting. Questioned by reporters on the "Brewers' Bulletin" as he left Cankaya, Prime Minister Ozal told them, "Private business has no right to interfere in politics."

In answer to a question on increases, Ozal said, "Anyone who gets his hopes up for a hike anticipating inflation is going to be disappointed to find himself in a bind later on." Prime Minister Ozal revealed that the 11-percent wage increase for civil service would go into effect on 1 July after a change in the personnel regime reflecting the supplementary budget appropriations.

Prime Minister Turgut Ozal was interviewed by reporters after meeting for approximately 1 hour with President Kenan Evren. He said that he had given President Evren information on various government activities during the meeting and that they had reviewed preparations for the visit of Turkish Republic of Northern Cyprus President Rauf Denktas.

In answer to a question about the "beer makers' notices appearing in the newspapers," Ozal indicated that he did "not think some of the claims in the notice have anything to do with the government." He said:

"I read the notice. It refers to a minority. The background of the beer problem started with a letter written by our Minister of National Education, Youth and Sports in his capacity as Minister of Youth requesting that the Turkish Radio and TV Administration not broadcast beer advertisements. This is one side of it. The second important thing in the beer issue is the one which, I think, is the main thrust of the notice and has nothing to do with beer advertising, but whether beer should be a licensed alcoholic beverage. The proposal to include beer in the alcoholic beverage category was made in parliament by a Nationalist Democracy Party deputy. The proposal was first discussed in the Justice Committee. The government has made no suggestion to its own deputies one way or the other regarding the proposal. Let me just say that."

Prime Minister Ozal said that the proposal to consider beer an alcoholic beverage had been approved by a majority of various deputies, both opposition and otherwise in the Justice Committee, and when it came to the Budget Planning Committee was likewise passed by mixed votes. He added:

"Indeed, some ruling-party deputies voted in favor and some voted against in these discussions. The same goes for the opposition deputies. This would imply that the bill passed by a majority, not a minority. It appears that it was a majority matter, not a minority matter as stated in the notice."

Ozal said it was not a question of a complete ban on beer, just that it would be considered an alcoholic beverage and require a permit so that permits would be required for the sale of beer in student dormitories, coffee houses and places where tea and soft drinks were served, and that the permits would be issued by the competent authorities.

Prime Minister Ozal said there had been extensive scientific reports on beer in Turkey, that these included reports that alcoholism was steadily increasing despite claims to the contrary. He continued:

"The only worrisome thing is this, that they would pass off, or attempt to pass off, something negotiated in parliament, that is, the votes cast one way or the other, as a reactionary minority. It is unthinkable that this was involved with the level our country has reached today. One must not think of this in simple terms of profit, either. It would have been better if it had not been done this way, but to have said plainly in a way that would not have been so damaging: 'This is our economy, the economics of the matter are such and such.' This was not plainly stated in the notice and the problem tilts a little to the other side. I am just reminding people of this, that it is unconstitutional in Turkey for associations, foundations and organizations of a public nature to get involved in politics. Private business has no political rights in any case. If it is constitutionally prohibited for associations, how much more so is it for them."

Asked whether the government would do anything about the notice, Ozal said, "It would be for the competent authorities to look into. If any criminal element is involved, it would be up to the prosecutor's office to take the necessary action."

Prime Minister Ozal was also asked a question about public housing credits to which he replied:

"The Public Housing Law has not yet passed. There are two or three alternatives for the payment of monthly installments. One alternative under consideration at the moment is for monthly installments to start out low. Another would index monthly installments to the minimum wage. Whatever a person made, his payments would be based on that. The system is being worked out by balancing all elements against each other. But our estimates on the housing matter hold."

Ozal said that what was getting the most attention in the housing problem was financing, but this financing had been rising steadily recently and had even gone over 10 billion a month.

In answer to a question about when prices would go down, Prime Minister Ozal said, "I did not say prices were going down in June. I said, 'Prices will be going down after the sixth month.'"

Long Affair

Ozal gave this answer to a question on price controls:

"It is not easy to control inflation. Inflation is something that requires hard work, patience, courage and sacrifice. The fight against inflation takes a long time. Turkey has had positive examples of this struggle in the past 4 years. We have all seen inflation that was once in the 100-plus percentages come down to 25 percent."

Prime Minister Ozal said in answer to another question, "The government has been taking very serious measures on inflation ever since it took office." He went on: "Let no one doubt these serious measures we have taken. Another important side of inflation is its psychology. The war on inflation is not conducted with monetary and budget-related measures alone, but through psychological measures also. A psychological measure would be media announcements keeping the problem before the public. Whether the media have a positive psychological impact in this, I cannot say."

"But I will say this to anyone who gets his hopes up for a hike anticipating inflation as a result of this: Those hoping to make increases will be disappointed to find themselves in a big bind later on. No one should operate on the expectation of inflation."

Ozal said in reference to high fruit and vegetable prices:

"This is the time when there is the least fruit in the growing areas. Vegetables were late getting from the greenhouses to the fields this year, too, because of the cool weather. But I expect this to be improving soon."

Ozal said that efforts to establish special vegetable markets were continuing and measures would be taken soon to increase the number of markets to improve the consumer-grower connection.

Prime Minister Ozal said that implementation of the civil service increase would begin by 11 July [as published] at the latest, adding, "This is a very hard job. We are working on it. God willing, we will get the new personnel regime started in July."

In reference to wage increases for State Economic Enterprise workers, Ozal said the "collective agreement period is open and they can conduct bargaining."

8349

CSO: 3554/252

OZAL DEFENDS PATTERN OF INSTITUTIONAL CHANGE

Istanbul CUMHURİYET in Turkish 24 Jun 84 pp 1,11

[Text] Speaking at a dinner with newspaper publishers and managers yesterday, Prime Minister Turgut Ozal said: "Turkey's structure is changing in every area. We are on the right path, but we must tread carefully." With regard to inflation, the Prime Minister said: "There are no longer any queues. Everything is available on the market. Now, the complaints are about inflation." Ozal stated that his government is focusing on three factors to curb inflation: 1) The money supply will be further cut back; 2) The budget deficit will be minimized; and 3) Investments will be channeled into areas which will yield quick results.

Speaking about the transition phase to democracy, Ozal said: "If we are helped, we can make changes in Turkey's political structure. We are in a transition period. We must put democracy on its tracks together with all its requirements."

Ozal analyzed the developments in Turkey's economy since the 1950's and criticized the economic policies pursued by various governments in Turkey after the world oil crisis in 1974. In connection with past and planned novelties in economic policy during his government's tenure, the Prime Minister said in brief:

--"Increasing exports is our only solution. I cannot see any other way out."

--"Our achievements in exports have exceeded our expectations and have been termed as miraculous."

--"Wheat and meat prices have adjusted to world prices. We have adapted to world conditions in agriculture. In industry, domestic prices are lower than world prices."

--"Turkey's industry has been integrated with the outside. Most of the industrial organizations have adapted themselves to the structural changes."

--"We will continue the liberalization effort, but we are moving with more caution in certain branches of industry."

--"One of Turkey's most important problems today is unemployment."

--"Our creditworthiness has improved abroad. They are proposing us to build a nuclear power plant entirely on credit and to sell airplanes again on credit."

--"The housing problem can be considered to have been resolved."

--"We will resolve licensing problems with simple building legislation."

--"The black market problem is on its way to be resolved."

--"We eliminated declarations of wealth in one swift move; it did not cause too many problems."

--"Mandatory declaration of stock is not right in any commodity; it forces people to cheat."

--"The condition of wage earners will be improved by stages."

--"Inflation has a psychological aspect. Recent rumors have intensified market expectations."

--"The toll expressway between Istanbul and Izmir will be ready by the end of the year."

With regard to differences of opinion within the Motherland Party, Ozal said: "We brought together four different groups. Our composition is neither the old right nor the old left. Rumors about divisions within the Motherland Party are not true. We are trying to hold together formerly opposing groups under a single roof. When occasional mistakes are made, we tell them not to repeat them, but we do not punish them. We do not want to apply pressure on one side and offend them. We are trying to be conciliatory and to avoid rubbing old wounds."

9588

CSO: 3554/259

SODEP'S INONU ASSAILS OZAL'S ECONOMIC POLICY

Istanbul CUMHURİYET in Turkish 24 Jun 84 pp 1,11

[Text] Social Democracy Party [SODEP] leader Erdal Inonu criticized Prime Minister Turgut Ozal's remarks to the effect that "price increases were postponed to this year, because constitutional prerequisites delayed the formation of the government." Inonu said: "It is fortunate that they did not increase the prices at that time. The citizens gained some time."

Populist Party [PP] leader Necdet Calp said on the same issue: "Today's price hikes have nothing to do with delays in the formation of the government. The price hikes are the natural consequence of the economic policies being pursued."

Erdal Inonu's statement to the Turkish News Agency is as follows:

--"Inflation does not rise because of news items in the press. Excessive price hikes are at the root of inflation. Even Ozal acknowledges this fact, but he wants to put the blame on somebody else. The press simply echoes the events. If there is inflation, the press is obliged to report it."

--"The government has focused its policies on certain limited aspects of the economy. It is paying no attention to social issues and education."

--"The legislation on the protection of the Turkish currency was simplified at the beginning, but with daily amendments it is returning to its old state. Liberal import policies have not resulted in any gains."

--"We must acknowledge that certain acts were helpful. For example, the decriminalization of possession of small amounts of foreign currency was appropriate. The quest for a solution of the housing problem is also appropriate."

--"The cost of living is rising rapidly. People are encountering hardships. Citizens are asking us to organize rallies to protest the high cost of living. If the government does not give the impression that it will reduce hardships, these hardships will be able to express themselves more openly."

--"Our confidence on export figures quoted by Ozal has declined."

--"Ways must be sought to prevent the consequences that may be caused by the domination of the ruling party by a small faction not endorsed by the majority

of the people. If Ozal observes the requirements of democracy, he can control the quarrels within his party and he can prevent small factions from dominating the party."

--"The manner of government assistance is an insult not only to the nation's vote, but also to its common sense and intelligence."

Necdet Calp told the Turkish News Agency:

--"The PP neither pursues nor encourages a national coalition. Conditions for a coalition do not exist at this time. However, this issue can be considered if future developments mandate the formation of a coalition in the Assembly."

--"According to the Constitution, the Prime Minister is entrusted with maintaining coordination. The latest changes have given the Prime Minister the power to issue orders to and to intervene in other ministries. This may not be objectionable for a one-party government, but it may cause major problems if coalition governments are formed in the future."

--"The price hikes and the high cost of living have nothing to do with the delays in the formation of the government. Nor has the press any role in this issue. If the conditions do not permit, prices cannot rise continually no matter what the press says."

--"The government must clarify imaginary exports. Planning is mandatory in exports."

Meanwhile, a statement issued by SODEP says that the 5th Five-year Plan "was prepared with foreign collaboration." According to a report filed by our Ankara bureau, the SODEP statement says:

--"The government is shooting itself in the foot with its attitude toward the public sector as reflected by the sale of State Economic Enterprises and the scaling back of investments."

--"The measures which are considered essential to boost exports will lead to the transfer of Turkey's resources to foreign countries and a rise in the cost of investments. The currency exchange rate guarantees given to private investments will pass on this cost to the people. This is the largest concession made to the private sector."

--"The open and unconditional concessions made to foreign capital are extremely objectionable."

Meanwhile, Cahit Ulku, one of the spokesmen of the temporary public relations center of the Democratic Left Party, which has been doing organizational work for the past 8 months, told the Turkish News Agency: "The economic model being implemented is of a nature that curtails social government and social justice." Ulku added: "Working segments of the society are highly restricted from influencing the administration with their own free organizations."

PP Secretary General Aydin Gurkan said in a press conference yesterday: "The Prime Minister desires to make himself an American-style leader." Gurkan emphasized the following points:

--[On the issue of merging with SODEP] "The issue of merging parties with similar views into a single party must always be an agenda item."

--"Despite the fact that the government remains away from the Assembly, the proper opposition is being offered. Cooperation with organizations such as unions, universities and associations is necessary for an effective opposition, but the Constitution bars such cooperation."

--"We strongly doubt that in the 4 1/2 years that the Ozal administration will govern Turkey any serious steps will be taken toward democratization."

9588

CSO: 3554/259

TISK'S NARIN RELAYS BUSINESSMEN'S COMPLAINTS TO IMF

Istanbul CUMHURIYET in Turkish 24 Jun 84 pp 1,11

[Text] Ankara--Halit Narin, the President of the Confederation of Turkish Employer Unions [TISK], has conveyed to the IMF the complaints of the "business world" about the economic policies of the government. According to information obtained by the Ankara News Agency correspondent, Narin stated that current policies ignore and even undermine the production factor and added: "The Turkish economy cannot progress by support given to a few exporting firms."

Narin declared that the government's policies generally "are not approved by business circles" and that, however, "for the moment they prefer to remain silent rather than breaking the dialog and expressing their opposition." Narin continued:

"Each of us, as individuals, is in a position to be content with these policies. For example, I am earning a certain amount of money. However, we are pessimistic about the future climate that will ensue from these policies which ignore and even undermine production. We do not believe that the Turkish economy can progress by support given to a few exporting firms."

Narin expressed his complaints about the government's economic policies during a tea party at his Marti Motel where he had invited IMF experts who spent last weekend at the Finance and Customs Ministry's resort facilities in Marmaris. According to the information obtained, at the "tea chat" neither the IMF experts nor the Deputy Undersecretary of the Treasury and Foreign Trade, Tevfik Altinok, showed any noticable reaction.

The event was confirmed by an IMF expert who was interviewed by an Ankara News Agency correspondent in Ankara. The expert said: "The complaints about the policies being pursued are natural. We listened to them."

According to information obtained by the Ankara News Agency from circles in the Prime Minister's Office, Halit Narin's complaints were reported to the government by Tevfik Altinok through Kaya Erdem, Deputy Prime Minister for Economic Affairs.

9588

CSO: 3554/260

ECONOMIC SUCCESS TIED TO 'SEE' REFORM

Istanbul DUNYA in Turkish 24 Apr 84 p 3

[Text] Izmir Chamber of Commerce Executive Committee President Dundar Soyer has commented on the economic model being followed in our country and on the government concessions being granted to exporter capital firms. Soyer stated that with a reform of the SEE's that would allow them to rapidly adjust to economic conditions and to operate accordingly, the economic model being followed would have a chance to succeed.

President Soyer said that broadening the free market economy after the elections was something that the Chamber of Commerce accepted on general principles and was a model that they would try hard to implement. He said the following on the current economic model:

The model being followed today is one that can yield positive results if it is very carefully followed and if the necessary modifications and adjustments can be made without upsetting the domestic balance. If the regulations set up at the start are applied without undergoing constant adjustments, we will come to a point where we will be unable to respond to the changes in the economic structure. Then we will be in for some very unfavorable results. For example, the failure to modify the January decisions at a time of the high interest policy provoked the bankers' incident and a major crisis, rooted in the bankers' incident, that has yet to be resolved. From this point of view, the liberal economy, essentially, has a different significance for Turkey. In the application of a two sector mixed economy, the conditions exist in Turkey for every corporation to respond to the principles of competition. However, if the state sector portion of the mixed economy cannot be made to conform to the requirements of this competition and if we think that the SEE's can be run only through price increases by removing state subsidies, then we will have ignored a very important element of the liberal economy and this system will not achieve the success anticipated.

Reform of the SEE's

Dundar Soyer argued that in the functioning of today's economy, reform of the SEE's is inevitable and he made the following points:

When speaking of competition from the standpoint of both goods and quantity, an essential condition is for both sectors to fully compete with one another across the board. However, as we have been unable to carry out such a reform in the public sector and the SEE's have not been made profitable, the reality

is that the liberal economy has encountered special conditions in Turkey. By carrying out a reform of the SEE's that will allow them to quickly adapt to changing economic conditions and function accordingly, it is possible that the model being followed today will yield positive results. One primary condition for this system to be accepted by both the producer and the consumer as a national economic system is for the system to include an interventionist policy of state control and supports by exempting essential commodities from the overall liberal economic regulations. This is the way it is done in the market economies in the West; their essential commodities prices are kept at set levels under state supervision. At this stage in applying a liberal economy in Turkey, state intervention is a necessity. In order for the system to be accepted by all segments of society and for it to become a national policy, state intervention is needed for essential commodities.

Price Sticker Shock

Dundar Soyer stressed that the latest price increases for SEE's basic goods, inputs and services eliminated the principle of competition in a liberal economy. He argued that the SEE's must be straightened out immediately, that they have to be modified and reformed and each turned into a well-organized business.

The Exporter Capital Companies Situation

The Izmir Chamber of Commerce president stated that the exporter capital companies have led to imbalances in the free market economy. He stated:

"The practice of exporter capital companies privately benefiting from what are in fact state resources in a liberal economy and their monopolizing imports and exports from certain countries runs counter to the market economy being followed today. This activity takes on a "neither fish nor fowl" characteristic and must be rectified. There are some efforts made to have this system resemble the Japanese model or the model of some other countries. It is true that large export-import companies appeared in these countries, however they came from the natural merging of smaller companies. They are corporations whose infrastructure had been completed earlier and which had grown on their own, through mergers. As it has been in our case, the practice of these companies having been developed under a kind of patronage, having been created in an artificial fashion by receiving special treatment—being allowed to obtain privileges that create monopolies in a free market economy—is disruptive and just does not fit in with this system. In the building of our economy and industry, the end product is produced by small and medium sized companies as part of a whole process wherein these companies manufacture the by-products for the major companies. Thus, it is the existence of these corporations which we have artificially enlarged in a variety of ways—by producing their industrial goods and then artificially promoting their export and domestic sales and by having them benefit from state credits and other considerations in addition to their own resources—that is a cause for us to be concerned about the chances of this system to succeed."

DEBATE OVER DEGREE OF 'SEE' TRANSFER TO PRIVATE SECTOR

Istanbul DUNYA in Turkish 23 Jun 84 pp 1,7

[Text] Ankara--The government approach to "turn over" State Economic Enterprises [SEE] to the private sector is now being modified into "seeking public partnership through the sale of stock" following the emergence of "insurmountable" problems in this area.

Although included in the programs of both the Motherland Party [MP] and the government, the plan to give greater dominance to the private sector in the makeup of the SEEs has become unfeasible as a result of "weaknesses observed in the resources and capacity of the private sector" and the "indispensable" character acquired by the SEEs in Turkey's economic structure.

The "mandatory" change in the government's stance to the said efforts has also manifested itself in the subcommission assigned to ascertain the principles of opening up the SEEs to public ownership. Furthermore, in the 5th Five-year Plan [FYP], the government refers to the SEEs as the "government wing of the economy" and sets long-term targets on this basis.

Subcommission

The dominant view among Treasury and Foreign Trade Undersecretariat circles is that in the case of most of the SEEs envisioned to be turned over to the private sector or to be opened up to public ownership through "transfer of management rights" or the issuance of revenue sharing bonds or common stock is theoretically impossible under present conditions. According to the information obtained "it is impossible even for the largest financing organizations in Turkey to buy public corporations--whose sale value is expressed in trillions of Turkish liras--such that they can achieve management control." In addition, the fact that large SEEs with extensive real estate and capital goods holdings are "unable to operate with the private sector's principles of management and profitability" is also seen as obstructing the transfer of these corporations to the private sector.

Meanwhile, the subcommission formed under the auspices of the Public Housing and and Public Partnership Council began its work on "opening up certain SEEs to public ownership." The subcommission, which is composed of representatives from the Undersecretariat of the Treasury and Foreign Trade, the SEE Department of the Undersecretariat, the Ministry of Finance and Customs, the State Planning

Organization and the Central Bank, will work to develop criteria for SEEs "whose capital and management situation is suitable for opening up to public ownership."

It is reported that the subcommission is focusing on three options: "full sale", leasing, and issuance of common stock.

One official stated that the commission is finding it hard to make any progress in its work because of the lack of a precedent in this area in Turkey and that, consequently, "no concrete decisions have been taken so far to be put in written document form."

British Model

It has been decided to study implementations in foreign countries initially as examples for the work of the subcommission. The Finance and Customs Ministry's finance and economy attache in London will be assigned to perform this task. Detailed reports have been requested about the implementations of the British government in this area so far. Officials state that Britain's experience in this area has been helpful in the project to open up SEEs to public ownership.

Long-term Approach

While efforts to open up SEEs to public ownership remain at the "assessment" stage, these organizations have been endorsed as the government wing of the economy in the 5th FYP and long-term targets have been set along the lines of this approach.

The 5th FYP envisions to focus SEE investments in the energy, mining, transportation and communication sectors and to increase fixed capital investments by 5.4 percent a year from 746.7 billion Turkish liras in 1984 to 986.7 billion Turkish liras in 1989 (all figures in 1983 prices).

The plan also extensively dwells on measures aimed at "reforming" the SEEs. The 5th FYP envisions to resolve difficulties in the SEEs' management and investment activities, to improve the quality of goods and services offered by the SEEs, to open up the SEEs to foreign markets and to secure foreign exchange revenues. The FYP sets forth the following principles to insure the "permanence" of the SEEs:

"The profitable and productive operation of the SEEs is fundamentally important. To that end, they will be reformed by new measures whenever necessary. Opportunities will be created to build up experienced, knowledgeable and qualified personnel who will insure continuity in management. Arrangements will be made to enable the SEEs to operate independently in financial and administrative areas. Investments are envisioned to rise to 94.5 billion Turkish liras in 1984 in constant prices. Steps will be taken to insure the timely procurement of SEE raw materials and their efficient utilization, and capacity utilization will be raised to an optimal level. The SEEs will take measures to improve the quality of the goods and services they produce, and they will incessantly work to make their foreign trade units adequate."

While speculative efforts such as the transfer of the SEEs to the private sector have been abandoned, it has been agreed in principle to strengthen the system formed by these organizations during the period covered by the 5th FYP. In this approach, it is envisioned to restructure the capacity-capital balance of the SEEs on a long-term basis and to insure that these organizations operate on a rational basis without having to depend on government budget resources.

9588

CSO: 3554/260

REVIEW OF NEW PUBLIC HOUSING FINANCE REGULATION

Istanbul CUMHURIYET in Turkish 24 Jun 84 pp 1,11

[Text] Ankara--It is envisioned to give housing cooperatives more "favorable" loans for homes covered by public housing regulations and to encourage the purchase of homes with an area of 80 square meters or less.

According to the Public Housing Code, which went into effect after being published in the Official Gazette yesterday, contrary to previous statements by Prime Minister Turgut Ozal, prospective homeowners will not be able to borrow from the Public Housing Fund without a downpayment of their own. The code also provides building companies with supplementary credit, described as "builders' credit", in addition to the public housing loan.

The code envisions public housing loans for homes not exceeding 150 square meters in size and specifies the amount of the loan as not more than 50 percent of the cost of the home. The loan will carry an interest rate of 35 percent per annum and will have to be paid back in 3 years. If the loan is made for single family homes, the interest rate will rise to 40 percent.

The code specifies the following procedures for builders to qualify for the builders' credit:

"The public housing contractor will apply to the bank for a loan for the project approved by the administration with an approval document obtained from the administration. The bank will ask for and verify documents it deems necessary for the way the loan will be used and about the financial condition of the contractor. If the bank is satisfied with the financial condition and expertise of the contractor, it will sign a credit agreement with the contractor using as collateral the plot of land where the project will be built. The bank can advance up to 10 percent of the loan, if the contractor so desires, for building up the construction site, for buying equipment and materials and to start the construction, on condition that collaterals other than the lot where the project will be built are provided. This advance amount will be deducted from subsequent payments."

The code sets loans for buyers of public housing at between 1.7 million and 3.2 million Turkish liras depending on the size of homes. In interest rates, the lower and upper limits are specified as 15 percent and 35 percent, respectively.

Public Housing Loans, Payments and Terms

1. Fixed Monthly Payment Plan

Homes within public housing areas:

<u>Home area (sq. meters)</u>	<u>Buyer's share (liras)</u>	<u>Loan (liras)</u>	<u>Interest rate (percent)</u>	<u>Repayment period (years)</u>	<u>Monthly payment (liras)</u>
Less than 60	500,000	1,750,000	15	15	23,200
61-80	750,000	2,250,000	20	15	31,300
81-100	1,050,000	2,750,000	25	15	32,800
101-150	1,450,000	3,250,000	35	10	36,200

Homes outside public housing areas:

<u>Home area (sq. meters)</u>	<u>Loan (liras)</u>	<u>Interest rate (percent)</u>	<u>Repayment period (years)</u>	<u>Monthly payment (liras)</u>
Less than 60	1,750,000	20	15	28,300
61-80	2,250,000	25	15	37,900
81-100	2,750,000	30	15	39,300
101-150	3,250,000	40	10	42,700

2. Annually Rising Payment Plan (for cooperative members)

Homes within public housing areas:

<u>Home area (sq. meters)</u>	<u>Loan (liras)</u>	<u>Repayment period (years)</u>	<u>First year's monthly payment (liras)</u>	<u>(to increase 10 percent every year)</u>
Less than 60	1,750,000	15	13,900	
61-80	2,250,000	15	18,700	
81-100	2,750,000	15	19,600	
101-150	3,250,000	10	23,000	

Homes outside public housing areas:

<u>Home area (sq. meters)</u>	<u>Loan (liras)</u>	<u>Repayment period (years)</u>	<u>First year's monthly payment (liras)</u>	<u>(to increase 10 percent every year)</u>
Less than 60	1,750,000	15	17,000	
61-80	2,250,000	15	22,700	
81-100	2,750,000	15	23,600	
101-150	3,250,000	10	27,000	

3. Current Minimum Wage Based Payment Plan (for cooperative members)

Homes within public housing areas:

<u>Home area (sq. meters)</u>	<u>Loan (liras)</u>	<u>Repayment period (years)</u>	<u>Annual payment (percent of that year's minimum wage)</u>
Less than 60	1,750,000	15	40
61-80	2,250,000	15	50
81-100	2,750,000	15	65
101-150	3,250,000	15	85

Homes outside public housing areas:

<u>Home area (sq. meters)</u>	<u>Loan (liras)</u>	<u>Repayment period (years)</u>	<u>Annual payment (percent of that year's minimum wage)</u>
Less than 60	1,750,000	15	45
61-80	2,250,000	15	60
81-100	2,750,000	15	85
101-150	3,250,000	15	100

The citizen who wants to buy a home in a public housing area will have to open an account, to be known as the "buyer's share" to be able to get a loan. The code defines "buyer's share" as follows:

"At least 25 percent of the amount to accrue in the buyer's share account must be deposited in cash and in advance. The balance will be deposited to the account in installments in accordance with the agreement reached between the buyer and the builder."

In the event the housing unit to be bought is outside the public housing area and is a "single family" home, the interest rate on the loan will be higher although the lower and upper limits of the loan will still be 1.7 million and 3.2 million Turkish liras, respectively. The lower limit on the interest rate will be 20 percent and the upper limit will be 40 percent.

The code covers housing cooperatives and unions and housing units built within the framework of Social Security Organization credits under a separate heading. According to these rules, loans for cooperative housing within public housing areas will carry interest rates of 15 to 35 percent. Loans for homes outside public housing areas will carry interest rates of 20 to 40 percent.

The code sets the following conditions for loans to cooperatives:

"Cooperatives, unions and social welfare organizations will apply to the bank for loans for projects approved by the administration with approval documents obtained from the administration. The bank will verify whether these organizations are adequately qualified to use the loan. If the bank is satisfied that the construction project of the organization is at the desired

level, it will sign a credit agreement with the organization, on behalf of the partners and members of the organization, using as collateral the plot of land on which the project is being built. The bank will notify the administration about the agreement and will ask the Public Housing Fund to provide funds as required by the payment schedule of the project it is financing."

The code also envisions loans for materials used by home builders. On this issue, the code says:

"Home builders who have obtained incentive documents from the Incentive Implementation Department can apply to the administration, together with documents submitted to the Incentive Implementation Department and the incentive documents, for loans from the Public Housing Fund to purchase materials to be used in the building of homes and machinery and equipment for factories and construction sites for the manufacture of prefabricated homes from industrial organizations which manufacture such products."

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CSO: 3554/261

CASE STUDY SURVEY OF TURKEY'S 'HOMELESS'

Istanbul CUMHURİYET in Turkish 12 Jur. 84 pp 1, 11

[Article by Senol Konukcu: "43 Families Homeless"]

[Text] For a week now, 240 people comprising 43 families have been living in the open in Rami. The families, evicted when the Rami Barracks, former officers' quarters, were torn down to make way for new construction, say they have been looking for rental housing for 3 months, but cannot find anything they can afford.

The "homeless," including 10-day-old babies, are seeking a solution to their problem from the authorities and the government.

Some of the people, who for a week have been trying to live in hastily thrown-together huts, had been evicted from the homes they were renting when the owners returned from Germany, others by court order when they could not pay the rent. Unable to find affordable rental housing, they resorted to squatting in the Rami Barracks, former officers' quarters which have been vacant for 4 years. Orhan Ozdas said, "No one was around, no one objected. There were no guards. We just moved in." Other homeless ones like Orhan Ozdas have been living in the vacant, abandoned barracks. But it was not to last and they had to leave a week ago when it was decided to tear down the buildings for remodeling. They had been told how long they had to leave, but where were they to go? Most of them do not make enough to rent a house.

With no where to turn, the "homeless" waited until the buildings were being torn down before moving their belongings to a vacant lot between the Rami Barracks grounds and a soccer field next door where they put up small, make-shift huts for themselves.

'I've Been Looking for 3 Months'

Mustafa Asan is one of the homeless. He is poorly dressed and unshaven. He has six children. The youngest is Umit, 10 days old. Wrapped in a ragged blanket in his mother's arms, it is hard to tell whether he is there or not, he is so tiny. He was born in one of the abandoned officers' quarters, but became homeless when he was 5 days old. The father, Mustafa Asan, indicates his other son, Gokay, age 7, and says, "This is my son. I ask you, would I be dragging this child around like this if I had any money?" As he speaks, he takes Gokay by the arm,

the one covered by a sleeve; his sweater has only one, and his shoes are falling apart. His face and clothes are dirty. He is not yet old enough to start school. Mustafa Asan, like any father, worries about his children. He is a little embarrassed, too. A street vendor, Mustafa Asan makes around 10,000-15,000 liras a month. We ask how he is going to solve his housing problem and Mustafa Asan answers: "I cannot think of any way. If a person has no home, it is always like this. We are vermin, we live outside the pale. They push us around like animals in the circus. I am looking for a house for around 3,000 liras' rent. The most I can pay is 5,000. And that would bleed us dry."

Yildirim Basavur is a lathe operator, 40 years old. He makes 18,000 liras a month. He has three children in school. He says, "We looked and looked, but could not find a house. We could have paid 8,000-10,000 liras. We cannot even find a house for this amount in the squatter sections. They start at 20,000 at least. I do not think I will find anything now. We are asking the government to give us a place to stay or a tent."

Orhan Ozdas, who makes 28,000 liras a month at a plastics shop, comes from Narman District in Erzurum. When their home was destroyed by earthquake, they moved to his mother-in-law's house in Istanbul, but the landlord evicted them, saying, "There is not enough room for two families." He then found a solution at the officers' quarters where, seeing, "There was no one around, no one objected. There were no guards," they moved in a year ago and from which they have now been evicted. Orhan Ozdas says, "I have been looking for a house since January. I would pay 10,000-15,000 liras if I could find one. By taking it out of the food money."

No House We Can Afford

Enver Guven is 24 and works at a factory for 21,000 liras. He also says, "We are looking for a house, but they want at least 20,000 liras. We even went out to the villages, but we could not find a house we could afford. I am asking the government to give us a place we can stay or a place to rent that we can afford." Enver Guven's mother, Duriye Guven, adds hopelessly, "We found a house. They did not want a family with children. They told me I could move in if I didn't bring the children. Am I supposed to kill the children? Should I throw them in the river and drown them? I have a 12-day-old grandchild. What is to become of them?"

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CSO: 3554/252

OIL GLUT FILLS ROTTERDAM STORAGE TANKS

The Hague ANP NEWS REPORT in English 22 Jun 84 p 1

[Text]

R o t t e r d a m, June 22 - A glut on the world oil market has virtually filled storage tanks at this major trading terminal, oil industry sources said yesterday.

Refineries grouped around the Rotterdam and Europoort harbours, which include Royal Dutch Shell, British Petroleum, Exxon and Texaco, are carrying around 30 per cent more stocks than normal, using almost 90 per cent of their tank capacity.

The sources said non-refiner storage was completely full.

Refiners frequently rent out spare capacity, and sources said that the leading independent tank company, Paktank Nederland, was currently seeking extra space.

Paktank declined to comment, although a spokesman said that the company would do all it could to assist clients.

Industry sources said these include Saudi Arabia, which has built up huge stocks of its own oil at various points outside the volatile Gulf to guard against possible disruption to oil shipments because of the 45-month-old war between Iran and Iraq.

The sources said there is as yet no indication of tankers being unable to discharge their cargoes at Rotterdam because of the lack of storage space.

Fundamental Picture

Since late April, 11 ships have been hit in Iraqi attacks on tankers using Iran's Kharg Island oil terminal and retaliatory Iranian strikes against tankers owned by Iraq's Saudi and Kuwaiti backers.

Freight rates and insurance premiums rocketed, and in May the world oil market suffered constant nervousness which artificially supported spot market prices.

But over the past month, the fundamental supply/demand picture has reasserted itself with a vengeance, towing spot prices for the actively-traded North Sea Brent crude down by at least 1.50 dollars to around 28.80 dollars, far below its official price of 30 dollars.

Weak demand for processed oil products such as gasoline, and heating oil has driven refiners out of the market for crude.

Industry sources expect many refineries to run down stocks over the next two to three months, offering little prospect for a recovery in crude demand as anxiety about the possible impact of the gulf war on oil supplies has waned.

Iranian Crude

Freight rates payable for vessels chartered to carry crude from the northern Gulf area have begun to ease, and insurance premiums on cargoes have fallen well below their late May peak.

Attacks on Kharg Island put an end to spot business in Iranian crude from that destination for several weeks.

And traders able to negotiate discounts with Iran to compensate for the risks and costs of loading there found no buyers for oil delivered to the European and Japanese markets.

Now, as a conclusive sign that the market has discounted the Gulf war threat, Iranian crude is again quoted for sale at Kharg Island. Traders report limited buying interest. (Rtr)

CSO: 3600/42

NATIONAL ENERGY POLICY ASCENDS AS POLITICAL ISSUE

Energy Minister Defends Policy

Madrid YA in Spanish 13 Jun 84 p 19

[Article by Carmen Tomas]

[Text] "We have tried to develop a National Energy Plan [PEN] which is open, clear, well thought-out and flexible, which is responsive to the actual needs of Spanish society, ignoring both pressure from special interests and political opinions, which although legitimate, would not be of any use," stated Carlos Solchaga, minister of industry and energy, in testimony yesterday before the Congressional Committee on Industry, Public Works, and Services, which began debate on the PEN.

The minister explained that the plan is not the result of a desire for confrontation between interests, nor of any political faction that wants to impose its sectarian viewpoint. "The PEN is the fruit " he said, "of the need to redirect energy planning without regard for special, ideological, or partisan interests. Its methodology is scientific, and anticipates the timely correction of possible errors without cost of supply problems."

Moreover, in his opinion, it is a well thought-out plan, since it does not exclude any source of energy; it is clear, setting all the costs and benefits of the various alternatives; and it is flexible, with the introduction of an automatic revision clause, considering the possibility of rectifying errors that may have occurred in the planning or might occur as a result of changes in supply and demand, or in the case of problems developing relative to natural gas or to administrative inertia.

The industry minister insisted that there had been no pressures in the plan's preparation, although he admitted the existence of many campaigns organized on different fronts in defense of very special interests, stressing that nevertheless lawsuits by workers and users had been thrown out. "Certainly," he added, "it is a subject in which one runs the risk of a certain degree of nationalist, populist, and ecologist bias."

Realistic Goals

The PEN has attempted, according to the minister, to attain realistic goals, trying to introduce the means to attain the planned objectives and making a series of sweeping institutional modifications, some of which affect the fabric of society.

Carolos Solchaga stated that, while in general during the past 4 or 5 years modifications on the price and supply of energy have been reassuring, resources continue to be in short supply and we are living in a world where energy is rather expensive, so it is necessary to undertake a redirection of energy planning, as has been done in most countries.

The principal goals of the PEN revealed by Solchaga are based on rational planning, "and not on what we want or what ought to be" and are basically as follows: Reduce vulnerability in supply; improve the energy efficiency of the Spanish economy by trying to influence consumption habits, through the incentive of savings; and increase the efficiency of the energy-generating sector, reducing the rate of investment in order to adjust capacity to demand.

The minister rejected criticism of the methods used to prepare the PEN, arguing that they are the same ones used in the 1979 plan and in other member countries of the International Energy Agency and of the Organization for Economic Cooperation and Development, and that therefore to disqualify them would be to disqualify the previous government and the international organizations mentioned.

Policy Debate Seen Stifled

Madrid ABC in Spanish 14 Jun 84 p 72

[Article by C. de Miguel]

[Text] "It seems the government wants to silence debate on the PEN, avoiding the possibility of an in-depth study of the energy policy, on the pretext that this plan has been agreed upon by the various sectors of production," Jose Ramon Lasuen, spokesman for the Popular Group in the Congressional Industry Committee, stated yesterday before Minister Carlos Solchaga.

Nevertheless, in the opinion of this parliamentary group, testimony this past week revealed that there are serious differences of opinion among the businesses, unions, and other sectors. In the political plan, this project contains irreversible errors, which will mortgage economic development in the coming years, "so we are obliged to denounce the responsibility of this government in a matter of state which exceeds the authority of a legislature," said Lasuen.

In the opinion of the spokesman for the Popular Group, the plan is not reasonable, either in its principles or in its figures and reasoning. If

it is concerned about vulnerability of our energy resources, it should turn to nuclear energy, since all the hydroelectric and coal increases planned by the PEN are equal to two nuclear power plants.

Other parliamentary groups--with the exception of the socialists--also expressed their general disagreement with the PEN. Gernandez Inguanzo (Spanish Communist Party) asked for greater emphasis on coal, Echevarria (Basque) complained about a lack of flexibility in supply and demand, and Gasoliba (Catalan) finds that an outdated methodology has been used.

In his speech, the minister of industry answered the questioners one by one. He admitted that the desired levels of fuel savings are not being reached, and no jobs are going to be created in energy generation, but they will be as a result of the energy savings being proposed.

He denied that Spain has low energy consumption, since it is five percent above the member countries of the Organization for Economic Cooperation and Development per unit of production, and indicated that the plan being presented, with the anticipated capacity, allows an increase in electrical energy production capacity from coal and nuclear power, so that the scenario need not be completely changed in the case of moderate increase in demand predicted by the opposition.

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